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Enablers and hinders of digital-platform firms' internationalization process

Cases from Finnish digital-platform SMEs

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ABSTRACT:

In today's globalized economies, internationalization remains an important strategic decision for firms. Accordingly, international business scholars have been focusing on examining firms' internationalization pathways and creating internationalization theories. In addition to globalization, international business is strongly affected by digitalization. The increasing degree of digitalization has given rise to a new type of companies: digital-platform firms (DPFs). DPFs create value by enabling demand and supply sides to interact together. They often operate outside home country's national borders and have been praised for their fast internationalization process and scalability. However, the research on their internationalization pathways is still rather descriptive and scattered. We still do not know much how DPFs expand internationally, and what are the hinders and enablers in this process.

The theoretical background of the thesis includes relevant research on internationalization and DPFs. This thesis builds on the major internationalization theories, mainly the Uppsala model (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009) and International new venture (McDougall & Oviatt, 1994). Therefore, the objective of the thesis is to examine the internationalization process of digital-platform SMEs. The specific *aim of this thesis* is to examine how digital platforms enable and/or hinder internationalization of SMEs operating through them. To do so, this thesis bases on an in-depth longitudinal multiple-case study of three internationalizing DPFs from Finland. This thesis contributes to the research on digital-platform SMEs, and provides internationalization studies a unique focus.

Findings of this thesis suggest that even though DPFs are considered to internationalize fast, to distant markets and by simply copy-pasting, they in fact require physical presence and localization. Moreover, this thesis shows that out of three case firms two firms followed the Uppsala Model, entering first close markets. One of the three case firms can be labelled as a born global. Hence, both Uppsala Model and Born global/INV theory are relevant for examining DPF internationalization. Therefore, this thesis sheds light on also the hinders of DPF internationalization, which have been overlooked in prior research.

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KEYWORDS: Digital-platform firms, Digitalization, SMEs, Internationalization, Uppsala Model, Born global, Multiple-case study [Keywords]

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1 Introduction

In this section of the thesis, the author will outline the research area of the study and position her work within it. Furthermore, the author will present the research question.

1.1 Background and research problem area

In international business (IB) research, internationalization pathways of firms have been one of the main focus points for decades. The first internationalization studies were conducted in the 1960s, and from there on the interest in the topic has continued increasing. (Monferrer, Blesa, Ripollés, 2015). However, the context of conducting business across national borders is constantly evolving; new phenomena appear and change the IB landscape (Monaghan et al., 2020; Ghauri et al., 2021). Therefore, the research on internationalization is still developing and growing and there are aspects we do not know yet. One reason for the changes happening in the field of internationalization is the widespread digitalization. In light of current digitalization and globalization trends, firms' international business activities are more a norm than an exception. (Bartlett & Ghoshal, 2000) Research argues that digitalization is disrupting businesses and also changing the ways firms internationalize (Brouthers et al., 2016; Tripsas, 2009; Yoo, 2010). Hence, the growing degree of digitalization has created a new wave of firms – digital-platform firms (DPFs) (Westerlund, 2020). Some sentence about what they are. Internationalization pathways of these firms are different but not fully examined (Hennart, 2014; Monaghan et al., 2020; Tippmann et al., 2018).

The importance of DPFs is evident in today's economy dominated by information and communication technologies (Ojala, Evers, Rialp, 2018). Some of the most successful firms at the moment are DPFs. For example, social networks such as Facebook and job portals such as monster.com are all DPFs. (Brouthers et al., 2016). IB scholars emphasize that internationalization pathways of DPFs are different in contrast to the internationalization pathways of multinational corporations (MNCs), which are explored extensively in IB literature. Similarly, DPFs operate globally sometimes fast after their inception and

they are known for their scalability. (Hennart, 2014; Monaghan et al., 2020; Tippmann et al., 2018). Some research considers that DPFs can internationalize effortlessly because, unlike, manufacturing companies, DPFs are not bounded by physical assets. Instead, they have been even considered limitless because their digital ways of operating would make it possible for them almost to ignore national borders. They are able to reach customers globally. Moreover, they reach markets fast, and they can almost copy-paste their business models to a foreign market. They are not only scalable, but also enjoy high internationalization speed. (Monaghan et al., 2020) Overall, research has highlighted the positive effects of DPFs and their positive impacts. (Monaghan, Tippmann, Coviello, 2020; Stallkamp & Schotter, 2019).

This thesis questions this dominating positive view, as there is some evidence that platform business models can also hinder internationalization processes. For example, Brouthers et al. (2016) state how DPFs suffer from the liability of user-network outsidership. This means that one of the most crucial issues to overcome when expanding to a foreign market is gaining users to the platform. This is not the only hinder in internationalization for DPFs. Moreover, Jean, Kim & Cavusgil (2020) found that foreign market competition and uncertainty, among other factors, affect the internationalization of DPFs negatively. Overall, even though major internationalization theories, such as Uppsala model (Johanson & Vahlne 1977; 2009), have been revised in the efforts to make them applicable to modern firms, we still know little how DPFs expand to foreign markets. More clarity is needed to understand whether digital platforms enables and/ or hinder internationalization process. (Brouthers et al., 2016; Stallkamp & Schotter, 2019)

1.2 Research question and intended contributions

In light of the aforementioned research deficiencies, this thesis intends to develop new knowledge on pathways of DPFs. The purpose of this thesis is to explore the issues and advantages that come with operating as a DPF in foreign markets. Therefore, the aim of the thesis is formulated as follows: **The aim of this thesis is to examine how digital platforms enable and/or hinder internationalization of small and medium enterprises**

(SMEs) operating through them. This aim is achieved through conducting a longitudinal multiple-case study of three digital-platform firms from Finland. By doing so, this the thesis provides several important contributions. These contributions can be categorized into theoretical and managerial contributions and they are presented below.

First, in terms of theoretical contributions, This thesis links together IB research, in particular internationalization theories, and research on DPFs. Hence, the thesis intends to enrich the field of IB, stimulate interest in the topic of DPFs' internationalization and contribute to the scarce but growing amount of research on the internationalization pathways of digital-platform firms (Jean, Kim, Cavusgil, 2020; Brouthers et al., 2016; Monaghan, Tippmann & Coviello, 2020). Precisely, the literature on DPFs' internationalization is extended by highlighting the common types of enablers and hinders in the internationalization process of this specific type of firms. The unique aspect of the thesis is that it concentrates on the internationalization of firms operating in multi-sided markets. This means that the companies may struggle to balance supply and demand, balancing different actors on the digital platform that create the value for the business. This type of research is still lacking in the area of IB. Contributing to this emerging research of internationalization of DPFs is crucial (Stallkamp & Schotter, 2019; Ojala, Evers, Rialp, 2018).

Also, De Reuver, Sørensen, Basole (2018) point out that the existing research on DPFs has focused only on the successful cases. Therefore, they provide a narrow view highlighting the positive sides of operating through a digital platform. (Monaghan, Tippmann, Coviello, 2020; Stallkamp & Schotter, 2019) This the thesis takes a step forward and shows that operating though digital platforms is not only beneficial for internationalization but also can have dark sides. By showing the drawbacks of internationalization through digital platforms, this thesis offers a more holistic and realistic view of DPFs' foreign expansion.

Second, in terms of managerial contributions, this thesis aims to focus not only on the enablers that digital platforms provide to internationalizing SMEs but also on the hinders. This perspective offers a more wholistic and adequate picture on what decision makers could expect when bringing their digital-platform firms abroad. Furthermore, this thesis aims to provide suggestions how to avoid the specific hinders in the internationalization, which are common for digital-platform SMEs.

1.3 Structure of the thesis

The thesis is structured in the following way. After the introduction follows the theoretical background, which builds on the existing research relevant for this thesis. The theoretical background addresses internationalization theories and approaches, research on digital-platform SMEs, and the hinders and enablers of internationalization of DPFs. Next follows methodology of the thesis; it justifies the methodology and research design of this work. The author explains why chosen research method was most suitable for the thesis. Following methodology, the author presents the findings of the thesis. In the findings section the author examines the cases. After that follows the discussion. In the discussion section, the author juxtaposes the findings of the thesis with the relevant prior research presented earlier in the theoretical background. Finally, the author will present the conclusions section.

2 Theoretical background

In this section, the author will present relevant theoretical background for the thesis. The major process theories on internationalization will be examined as well as research on DPFs. Moreover, to make the reader familiar with the subject and the key theories, this section will present important definitions for the thesis. In addition, the author will present the framework, which will be used analysing the findings.

2.1 Internationalization

Internationalization is defined as the process in which the firms aim to increase its operations outside its national borders. Internationalization refers to the process of business operations across home country borders with a growing degree in operations (L. S. Welch & Luostarinen, 1988). Internationalization is a crucial strategic decision for a company. Researchers have created several theories that explain the internationalization process from different points of views, which will be covered in the following sub-sections.

2.1.1 Prior research on internationalization

Different internationalization theories aim to describe different ways firms enter foreign markets. Often firms use combinations of different ways. However, the theories are an excellent starting point of analysing the firms' internationalization. Internationalization process of firms has been researched for long in IB. (Welch & Luostarinen, 1993). Moreover, other fields of research that have examined internationalization are strategic management and international entrepreneurship literature. When studying internationalization, the researchers have commonly got access to data from large multinational corporations and thus, research can be somewhat biased. SMEs have become a point of focus more in the studies in the last few decades.

Researchers have been focusing on internationalization studies over the past decades covering several areas of the topic. Internationalization has been examined from the

point of view of marketing, strategy, international management, SME management, and organization theory. Research on internationalization covers topics related to the internationalization process of the company, such as decision making and management, the activities conducted and factors in favour of and against internationalization. (Matlay, Ruzzier, Hisrich & Antoncic, 2006). Moreover, Brouthers et. al. (2016) conclude that research on internationalization has been focusing on for example the speed of internationalization, testing the existing theories or describing the internationalization process. Furthermore, each model on internationalization describes the internationalization process in different terms, either as a cyclic, evolutionary or stage-based process. (Matlay et al., 2006). In terms of the history of the dominant internationalization theories, according to Matlay, Ruzzier, Hisrich & Antoncic (2006) the internationalization theories derive from behavioural theory of the firm by Cyert and March (1963) and decision-making theories. In addition, trade theories have impacted the development of internationalization theories.

In general, earlier theories on internationalization focused predominantly on MNCs. The most influential theories for multinational enterprises are the internationalization theory, transaction cost theory, eclectic paradigm, monopolistic advantage theory. The dominant theories were formed in late 1950s and 1960s. In addition, the resource-based view is considered as a traditional internationalization theory among the internationalization research. Resource-based theory of internationalization was made within strategic management research. The theory categorises sources of resources as either internal or external, and the development of those resources as firm-oriented or network-oriented. The theories have been formed on to understand situations around internationalizing manufacturing companies and hence, according to some scholars are not that transmittable to examine DPFs. (Matlay et al., 2006)

Moreover, the dominant stage models of internationalization are the Uppsala model and Innovation-related model. Matlay, Ruzzier, Hisrich & Antoncic (2006) explain that the internationalization research which concentrates on SMEs begun in 1970s. It was

particularly dominant branch of research in the Nordics, as the Nordic countries were small open economies. This led to the term Uppsala School, which refers to the Nordic researchers who concentrated on SME internationalization research. The internationalization is seen as a process in which the company becomes gradually more international with periods of de-internationalization. Nordic research defines the internationalization of SMEs as “the process of increasing involvement in international operations” (Welch & Luostarinen, 1993, p.156). Nordic research has also established two crucial definitions in terms of internationalizing, which are international orientation and international commitment. On the other hand, the network view according to Johanson and Mattson (2015) defines internationalization as forming, maintaining and breaking relationships to achieve company objectives. (Matlay et al., 2006)

Internationalization is common for firms for several contributing factors which are discussed in this section. Access to international trade and operations has become more common as technology and policies have developed in the past centuries. The three driving forces of internationalization are low-cost technology, declining amount of trade barriers and financial regulation, and economic restructuring after socialism ending in Russia and Central and Eastern Europe. (Ruzzier, Hisrich & Antoncic, 2006). Internationalization is a dominant trend in the field of business. Although it has been increasing for decades, even wider internationalization can be expected as governments are declining barriers and technological development makes the world even more integrated. (Lu & Beamish, 2001). Furthermore, globalization has in many ways lowered the hindrances for becoming international. The definition of globalization according to Ruzzier et. al. (2006) is that the firm operates globally, not only in specific few countries. Globalization is connected to increased competition and companies acting globally must be able to adjust to rapid changes. Globalization is said to have a particularly strong effect on SMEs compared to MNCs that have already globalised. (Ruzzier et. al., 2006). Due to technological advancements also SMEs have been able to play even greater role in the field of IB. (Lu & Beamish, 2001)

Next this thesis will go through the most relevant internationalization theories. In the following sections of the thesis the case companies' internationalization process will be analysed by using and combining aspects of these different internationalization theories presented.

2.1.1.1 Inward-outward connection in internationalization

Welch & Luostarinen (1993) examine how the inward processes of firms are connected to the outward processes in internationalization, which is penetrating foreign markets. Their study indicates that inward internationalization contributes in different ways to the outward moves which appear later. The inward processes have the strongest effect when the company is still at its early internationalization stages. For example, a firm which operates domestically might have international relationships (suppliers, customers, competitors) and therefore, the firm's indirect relationships might act as driving forces for internationalization process. In other words, their research suggests that inward movement marks the start of a relationship between foreign and local people, and the relationship can be later utilized to access a foreign network and to gain information about foreign markets.

2.1.1.2 Uppsala Model

Johanson and Vahlne (1977) developed the Uppsala model. According to the model internationalization is a process where companies expand their operations first to foreign countries that are geographically close. In their model, internationalization is a gradual process. It is named the stage model. According to the model, the market knowledge and resource commitment of the company affects decisions on commitment and the business operations. These decisions and operations again increase the market knowledge and so the process is a subsequent cycle as illustrated in the figure below. (Please see Figure 1 below). The model has two sets of variables: state variables and change variables. In its core, the model is based on the idea of gradual knowledge development and incrementally increased foreign market commitment.

The model is based on assumption that lack of information is hindering firms from internationalizing, and this information can be only acquired by operating in the foreign country. In the model it is called the *psychic distance* and it refers to a sum of different factors that prevent information from and to the market. These include different language, education, managerial practices, culture and level of industrial development. In the model the hinder for internationalization is the lack of market knowledge, which leads to uncertainty. The knowledge is gained though personal experiences and hence, the internationalization is a gradual process which is based on the accumulation of knowledge about the foreign markets. The model does not consider the decision style of the management. In conclusion, the original model (1977) stresses the importance of experience in internationalization. (Johanson & Vahlne, 1977)

Figure 1. The Basic Mechanism of Internationalization—State and Change Aspects.

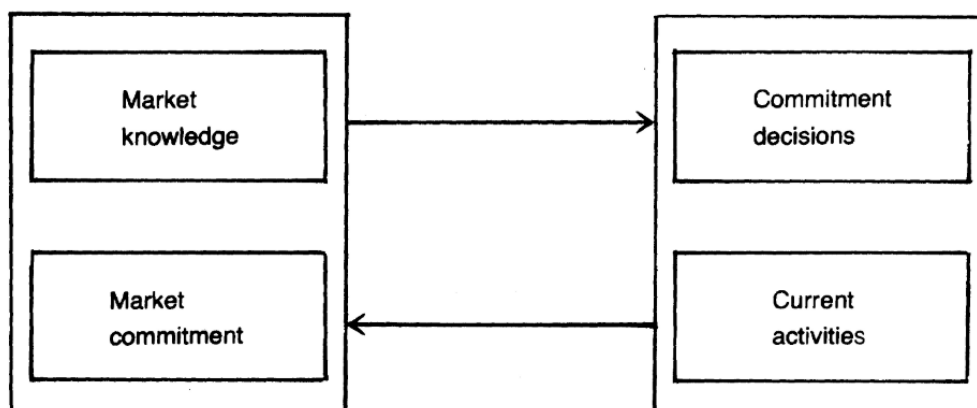


Figure 1 Uppsala model illustrated (Johanson & Vahlne, 1977, p.26)

There has been empirical support for the model. However, there has also been criticism (Chetty, 1999; Reid, 1981; Andersson, 2000). The qualitative concepts of the study have made some researchers question the model's validity (Ojala & Tyrväinen, 2006; Andersen, 1993). It has been argued that nowadays there are companies that do not act in accordance with the gradual internationalization model. Instead, some companies, such as born globals and international new ventures, are global since their beginning. It

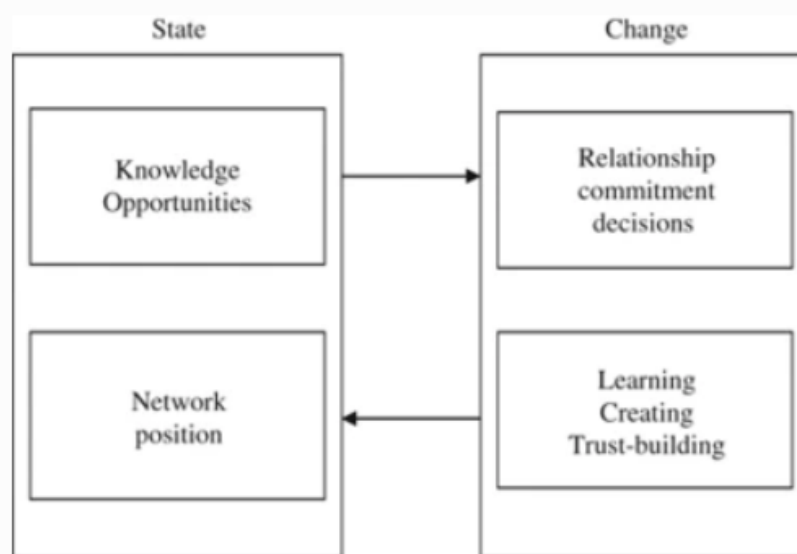
has been critiqued that while traditional MNCs might follow the geographical gradual stages of internationalization, the theory does not suit all types of corporations. Moreover, some researchers criticize the linearity and determinism of the model (Coviello & McAuley, 1999; Forsgren, 2002; Turnbull, 1987). With digitalization and new ways of internationalization the theory has been criticized as outdated. Hence, some researchers have concluded that the theory could not be applied to modern digital-platform SMEs and that the updated version of the theory works better for SMEs.

Johanson & Vahlne developed the original Uppsala model in 1977. Ever since the model has been updated several times by them. The revisited Uppsala model from 2009 (Johanson & Vahlne, 2009) take into account the increasing importance of networks for internationalization. The revisited Uppsala model moves from the concept of liability of foreignness to *liability of outsidership*. The changes in the model are based on the change in the business practices and theories. Business environments have become a network which consists of several relationships. (Johanson & Vahlne, 2009). In the revised model the reason for uncertainty is not psychic distance but outsidership of the network. The previous liability of foreignness by Johanson & Vahlne (1977) suggested that when entering to a new market a company would suffer because it was not local. The concept of liability of foreignness means that foreign companies need specific competitive advantage to survive on the foreign markets because firms that expand to foreign markets face costs that local firms do not face. The costs for foreign firms stem from the lack of networks, unfamiliarity of local culture, etc. (Yonatany, 2017). On the other hand, the liability of outsidership is derived from both network theory and internationalization theories and it highlights the importance of belonging to the local network (Brouthers et al., 2016)

The main argument by Johanson & Vahlne (2009) is that internationalization process of a firm is hindered by liability of network outsidership (Monaghan et al., 2020). Johanson & Vahlne (2009) argue that insidership in relevant networks is a prerequisite for a successful internationalization. As in the original version, in the revisited model there are

also two types of variables. However, in the new version, trust-building and knowledge creation are added to the model. According to the model firms that suffer from liability of outsidership and foreignness lose on business opportunities. Johanson & Vahlne (2009) suggest ways in which a firm could achieve internationalization: knowledge and learning, trust and commitment building, and opportunity development. They also address the criticism they had received previously. Companies indeed have changed, DPFs, being an excellent example of modern type of firms. Johanson & Vahlne admit that importance of psychic distance has weakened, but not disappeared, however (see Figure 2 below). The revisited model has been considered to suit better also other types of firms than MNCs. (Johanson & Vahlne, 2009)

Figure 2



The business network internationalization process model (the 2009 version).

Figure 2 Revisited Uppsala Model illustrated (Johanson & Vahlne, 2009, p.1424)

Moreover, in 2017 Johanson & Vahlne make some important amendments to the model. The model is process-based and in order to empirically test it the data should be longitudinal. (Johanson & Vahlne, 2017) Furthermore Uppsala model can be described as a “micro-level tool of analysis”. Different research has different focus points and for the

Uppsala Model the focus is specifically on the process. Furthermore, the process refers to the firm developing knowledge and resource commitment. In their 2017 model Johanson & Vahlne conclude that ownership, control and access to firm-specific advantages is what enables internationalization, and the reasons to internationalize are efficient governance and economies of scale. Moreover, in their updated version of Uppsala Model Johanson & Vahlne (2017) explain several assumptions on firms. The firms are operating under constant risk and uncertainty and partial ignorance. In other words, this means that managers cannot know everything, and decisions have to be made while not being able to predict the future.

Moreover, in terms of networks the Uppsala model sees the network has a strong effect on the firm. Hence, the Uppsala model includes not only the firm but also all organizations in its network. However, also this revisited model has received criticism, especially from scholars supporting the born global theory. In IB research the born global theory has commonly been seen as the opposite of the Uppsala model. The revisited model has also been critiqued for not considering the possible periods of de-internationalization that firms face. Dominguez & Mayrhofer (2017) point out that companies do not only begin internationalization and keep increasing the international operations over time. Instead, there are different stages involved, there can be periods of de-internationalization and re-internationalization, and some companies stop all international operations (Welch & Benito, 1997).

2.1.1.3 Network Approach

The network approach was developed in 1988 by Johanson & Mattsson. The network theory also affected the dominant internationalization stage model (the Uppsala Model), which was presented in the earlier sub-section. It was revised to match new knowledge on importance of the business environment, its network. The network perspective to internationalization is based on liability of outsidership, which was developed by Johanson & Mattsson in 1988. Matlay et al. (2006) state that a large amount of research about internationalization has been done from the point of view of network approach.

In the network perspective, it is seen that industrial markets are made of networks of firms: competitors, suppliers, distributors etc. The network approach is useful for analysing internationalization because it takes into account how a company's internationalization process is not only affected by cooperation but also competition. According to the network approach the company develops relationships with actors from foreign markets. In the network approach the networking leads to gaining market knowledge. The network approach is seen as applicable to SMEs' internationalization process. Belonging to the network can enable the companies to position themselves in a foreign market (Abdullah & Zain, 2011)

The network approach to study DPFs would be highly justified because digital platforms are complex by nature and technically by themselves the platforms do not create value. The value for users comes from the platform being able to match different group members to each other. Hence, the as De Reuver, Sørensen & Basole (2018) state, research on DPFs requires analysing the ecosystem around the DPFs. Moreover, De Reuver, Sørensen & Basole (2018) point out that companies are not islands, separated from the rest, but instead they co-create value through several entities. However, the author has decided to narrow the scope of the thesis by using primarily Uppsala model and INV/Born global theory to examine the hindlers and enablers in DPFs' internationalization process. Therefore, network approach was presented shortly.

2.1.1.4 International new venture and Born global

Scholars have used the terms born global and international new venture interchangeably. Crick (2009) defines the difference in the following way: the term "global" refers to firms operating in at least the world's triad regions and a commitment spread across them. On the other hand, international new ventures have internationalized fast to reach opportunities, but they might not have a global presence and might have a more regional approach. Moreover, Crick (2009) states that ideally the theories should be recognized as different, and the terms used accordingly.

In the 1990s, research started recognizing companies which are international since their inception. McDougall, Shane & Oviatt (1994) stated that IB research did not currently manage to explain a growing among of start-ups. These start-ups since their inception aimed to create competitive advantage from operating in multiple countries. (McDougall & Oviatt, 1994). These types of firms are called international new ventures. (McDougal, Shane & Oviatt, 1994; Oviatt & McDougal, 1994). International new venture (INV) theory was the new approach to internationalization in 1994 developed by McDougall & Oviatt. Their research took internationalization scholars to another direction because they found out that none of the prior internationalization theories could not explain the process since founding to becoming international for this new type of firms that internationalized rapidly.

McDougall & Oviatt (1994) changed the focus point from mature companies with plenty of resources internationalizing incrementally to focusing on the entrepreneurs with global vision and international competences and networks. Moreover, the entrepreneur is considered a key resource in the INV's internationalization process. McDougall, Shane & Oviatt (1994) state that the strategy of internationalizing since the inception of the company brings advantages to the company because it is easier to have the international spirit from the start rather than start building it later. The enablers of the internationalization process for an INV were global vision, international business competence and an established international network.

McDougall & Oviatt found that INVs relied much on the entrepreneurs that had a global vision since the inception of the firm. They start the company with an international spirit. According to the theory of McDougall, Shane & Oviatt (1994) and McDougall & Oviatt (1994) the firms that are international since their inception are usually founded by people with international experience. Moreover, McDougal, Shane & Oviatt (1994) argue that firms that are international since their inception have benefitted greatly from strategic partnerships. Partnerships are crucial for internationalizing firms because they offer access to knowledge on the local markets and resources. INV phenomenon

(McDougall & Oviatt, 1994) has been fundamental in the internationalization research in area of IB.

According to Mahnke & Venzin (2003), in the 1970s internationalization research analysed the internationalization process of large manufacturing companies. Their internationalization process was categorized as a slow and gradual process. (Andersen, 1993; Johanson & Vahlne, 1990; Buckley & Casson, 1976). The research was strongly based on transaction cost theory. Since the 1980s, however, research recognized a phenomenon of SMEs internationalizing rapidly after the inception of the company – international new ventures. (Welch & Luostarinen, 1988; McDougall & Oviatt, 1994; McDougal et. al., 1994; Bell, 1995; Knight & Cavusgil, 1996; Coviello & Munro, 1997; Coviello & McAuley, 1999).

The theories aimed to reflect the fast nature of internationalization, that started early on. The enabler of their fast internationalization process was discussed by scholars. At first, technology was assumed to make firms' internationalization process fast. Yet, McDougall & Oviatt (1999) argued already decades ago that technology is not the only reason for the fast internationalization of digital information providers. In addition to the technology, Reuber & Fischer (1997) states that the international experience of management can make the internationalization process fast. Moreover, according to Nourbert (2016) the fast internationalization can be influenced by several factors such as skill and experience of management team, the networks of the company, business model, market entry mode and structured market development, unique technology possessed, product portfolio, market opportunities presented and size of the home market.

The other type of firms that aims to internationalize since its inception are born globals. This sub-section focuses on the born global theory. In the area of born global research international entrepreneurship research has emerged accordingly to the growing importance of born global phenomenon. (McDougall & Oviatt, 2005; Rialp et al., 2005; Hessels & Van Stel, 2007). The born global theory was introduced in a report by McKinsey (Rennie 1993) and it described the new types of firms emerging which internationalized

in a short period of time. The Born global theory describes the internationalization of companies which are international since their founding. For them the world is a sole market, and they aim to enter foreign markets since the founding. Scholars developing the born global approach claim that some companies achieve international expansion in various foreign markets, even distant ones, since their inception. This might be done also with no prior international experience. Moreover, born globals might not adapt their product that much when entering foreign markets. Typically, born globals are high-tech start-ups. They use different entry modes, combining them. The international expansion is utilized to achieve competitive advantage. (Knight & Cavusgil, 2004; Kuivalainen, Sundqvist & Servais, 2007; McDougall & Oviatt, 1994; Zucchella & Scabini, 2007).

The IB research often opposes the born globals to traditional multinational companies. Born globals are not trying to achieve minimal risks but instead focus on maximizing profits and hence, target several foreign markets. Moreover, the born global model does not see internationalization process as incremental and linear. As mentioned earlier in this sub-section, born global has been opposed to the Uppsala model in IB research. Most commonly either born global approach or the Uppsala model is used to examine the geographic expansion of a firm. (Dominguez & Mayerhofer, 2017). This thesis will later analyse which approaches reflect the international expansion of digital-platform SMEs.

2.2 Small and medium size enterprises (SMEs)

In this section, I will introduce the definition and characteristics of small and medium size enterprises (SMEs). There is not a consensus on the definition of SME. Instead, each country can create their own definitions on SME. It is common to use multiple indicators to define an SME; number of employees, turnover and balance sheet. Different countries have used varying definitions to indicate which company qualifies as an SME. However, EU has brought a commonly used definition for the term. (Robu, 2013). The widely accepted definition of SME within EU is based on numeric data about the company. An enterprise is considered a small enterprise when it has 50 or less employees and a

turnover of 10 million euros or less. A medium enterprise has 250 or less employees and it has a turnover of 50 million euros or less. Alternatively, the total amount of balance sheet should be less than 43 million euros. (Please see figure 3 below). A *small enterprise* is a company in which staff headcount does not exceed 50, turnover does not exceed 10 million euros and balance sheet total does not exceed 10 million euros. A *micro enterprise* is a company in which staff headcount does not exceed 10, turnover does not exceed 2 million euros and balance sheet total does not exceed 2 million euros. (European Commission, 2020).

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Figure 3 Definition of SME (European Commission, 2020)

Next the characteristics of SMEs will be examined. SMEs differ from multinational corporations (MNCs) in terms of resources. While MNCs have superior resources to acquire technologies, research, financing and therefore internationalize SMEs have limited resources and may have difficulties accessing finance and information. Gaining access to finance can be a hinder for SMEs as they do not receive bank loans as easily as larger corporations. (World Bank, 2020). Yet, SMEs are key for creating employment, innovation and growth in the markets. The advantage of SMEs as opposed to large MNCs is that they are able to rapidly meet the demands of the changing environment and adjust to the fluctuation in the markets. (Robu, 2013). SMEs are flexible and often operating internationally, meeting customer needs also outside of Europe. Some key characteristics of SMEs are that they are labour intensive, flexible, have an employing effect, and have a large market share. (European Parliament, 2014)

The contribution of SMEs to the world economy is crucial. This is because the majority of all enterprises are SMEs. According to World Bank (2020) estimated 90% enterprises are SMEs and they provide over 50% of all employment worldwide. SMEs are the driving force of the economy in Europe. SMEs are crucially important for the economy especially in a country such as Finland where 80% of the companies are SMEs. In Finland for example, SMEs generate 40% of the GDP. (Suomen Yrittäjät, 2020). Moreover, in EU SMEs employ 70% of Europe's workforce, 99% of all EU's companies are SMEs, and they generate almost 60% of EU's total turnover. Moreover, SMEs bring innovative ideas and technologies to the markets. Overall, SMEs play a vital role with national income and total employment. They can help solve unemployment issues. Moreover, SMEs can produce economic growth, mobility and innovation. (European Parliament, 2014)

According to European Parliament (2020) SMEs rarely participate in trade but instead keep their operations at national level. This could be because of the hindrances SMEs face in terms of access to finance. In fact, according to the Small Business Act for Europe (SBA) access to finance is the second-largest hinder for SMEs in Europe. In addition, internet has created business opportunity and contributed to new companies emerging. Digitalization offers a wide range of opportunities for SMEs that struggle with lack of resources. Often the internationalization of an SME can be hindered by lack of resources of a SME. SMEs operate in highly competed global markets. Research acknowledges that for an SME a technological advancement can be a source of competitive advantage and ease the internationalization process considerably. (Brouthers et. al. 2016; Robu, 2013).

2.2.1 SME internationalization

			SME research
Author	Definition	Focus	
Welch and Luostarinen (1993)	Internationalization is the outward movement of a firm's international operations	Process, firm's operations	479
Calof and Beamish (1995)	Internationalization is the process of increasing involvement in international operations	Process, firm's operations	
Johanson and Mattson (1993)	Internationalization is the process of adapting firms' operations (strategy, structure, resources etc.) to international environments	Process, firm's operations	
Johanson and Vahlne (1990)	Internationalization as a cumulative process in which relationships are continually established, developed, maintained and dissolved in order to achieve the firm's objectives	Relationships, process	
Lehtinen and Penttinen (1999)	Internationalization as developing networks of business relationships in other countries through extension, penetration and integration	Networks, relationships	
Lehtinen and Penttinen (1999)	Internationalization concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the personnel's cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward and cooperative operations	Relationships, firm's operations, process, int. environment	
Ahokangas (1998)	Internationalization is the process of mobilizing, accumulating and developing resource stocks for international activities	Resources, process	Table I. Selected definitions of the internationalization of SMEs classified by their focus and research approach

Figure 4 Research on SME internationalization (Ruzzier, Hisrich & Antoncic, 2006: p. 479)

The Figure 4 summarizes different definitions of internationalization and shows what has been the focus of the specific researchers' study. At first SME internationalization was defined by international operations (Welch & Luostarinen, 1993), and later it was defined as a process consisting of acquiring relationships and developing and mobilizing resources to reach the goal of internationalization. (Ahokangas, 1998). Hence, the theories concerning internationalization have diversified and internationalization is perceived as a more complex issue than few decades before. (Ruzzier, Hisrich & Antoncic, 2006). Moreover, in the table the points of focus on studies can be categorized as process, operations, networks, relationships, environment, and resources. Internationalization

research can focus on the markets, firms, or entrepreneur for example. In addition, according to Ruzzier, Hisrich & Antoncic (2006) the research on SME internationalization has examined the topic from the point of view of international activities by conducting analyses on products, operations and markets, or networks. They add that research which has concentrated on SMEs has often focused on either international activities or network analysis.

Internationalization of SMEs has some specific characteristics that sets the process apart from internationalization of an MNC. As SME internationalization is characterized by lack of resources, they face a considerable amount of pressure from internationalization and expansion activities. However, Reuber & Fischer (1997) conclude that for long research has recognized that although SMEs have several disadvantages when aiming to international markets, firm size does not accurately predict the international activity of a company. (Reuber & Fischer, 1997; Bonaccorsi, 1992; Calof, 1994) This is specifically true in countries where the domestic market is small, such as Finland.

In recent times, different types of SMEs overall have begun accelerating their internationalization (Dominguez & Mayrhofer, 2017). Scholars have made efforts to explain the SMEs internationalization through internationalization models. Dominguez & Mayrhofer (2017) argue that in the research area of IB SME internationalization is explained through two models: Uppsala model (Johanson & Vahlne, 1977, 2009) and born global theory (McDougall & Oviatt, 1994, 1997, 2005). Abdullah & Zain (2011) explore the internationalization process of Malaysian SMEs in their study and examine whether the major internationalization theories are applicable to SMEs. They find that all the models examined – Uppsala model, Network approach and International new venture or Born global are applicable. According to their research all SMEs do not globalize since their inception and thus, also the older internationalization theories are relevant. Moreover, the prior research shows that some SMEs internationalize incrementally. An incremental internationalization means that the internationalization is started by smaller commitment and gradually moves towards further markets and increasing the commitment to foreign

operations as theorized in the Uppsala model. On the other hand, other SMEs internationalize fast without prior international experience or knowledge on foreign markets, according to the born global theory. (Dominguez & Mayrhofer, 2017)

Moreover, there are some enablers and hinders in the SMEs' internationalization process. Lu & Beamish (2001) discuss how internationalization effects the performance of small and medium sized firms. Several studies confirm that firms face liability of foreignness when extending their operations abroad. (Lu & Beamish, 2001) Studies have found that liability of foreignness leads to situations where SMEs performance is low. Nevertheless, Lu & Beamish (2001) point out that these issues can be overcome, by gaining access to local networks and knowledge through an alliance. Forming alliances are an effective way for an SME to gain local knowledge on the new foreign market. Alliances can help a foreign company succeed in the international new market by providing them resources, capabilities, and knowledge that the firm is lacking. Overall, some of the common ways of internationalization for SMEs are exporting, foreign direct investments. (Lu & Beamish, 2001).

2.3 Digital-platform firms

2.3.1 Defining the terms

DPFs are a relatively new topic among research and there is no clear consensus on the terms used. There are several different definitions for businesses that operate online. Thus, it is necessary to identify and separate the different types from each other. *E-commerce business* is defined as business that sells their services through online portals. For a traditional business, E-Commerce can be yet another sales channel that they utilize in getting their products to the customer. According to Brouthers, Keisser & Rotlauf (2016), *electronic business companies* (E-businesses) are defined as any company that operates online. This definition is very broad and includes firms with several different business models. (Brouthers et al., 2016)

In contrast, *DPFs* are different from E-Commerce firms in the sense that DPFs facilitate the interactions between different actors. Moreover, for a DPF the platform is not a separate part of the business but instead the whole business depends on the platform. The value added to others by a DPF is that it facilitates exchanges between at least two groups. The users of the DPFs benefit from participating on the platform because they can interact with other groups in a way which brings value to them. DPFs have also had different synonyms in research. In addition to the DPF, several academics have used the term *ibusiness firm*. Brouthers et al. (2016) define the *ibusiness firm* as a company that has created a platform which enables users generate value by interacting with each other. The key defining factor is that the company uses internet to offer a platform through which users can interact. Hence, DPFs utilize digital platforms to offer their services or products. By its technical definition a digital platform is “an extensible codebase to which complementary third-party modules can be added” (De Reuver et al., 2018) In conclusion, DPFs or *ibusiness* are among the most used terms. (Brouthers et al., 2016)

To demonstrate the differentiation of DPFs from E-Commerce business, examples can be utilized. An example of a DPF is Airbnb, which offers the people the chance to rent their houses for people interested in a temporary stay and connects the two beforementioned groups. On the other hand, an example of an E-Commerce business is for example Nike’s online shop. In this case the digital portal is only a part of Nike’s business, merely a sales channel and not the whole business. Moreover, DPFs have become increasingly popular during the past decades. Some of the most successful modern companies at the time being are DPFs. These include social networks such as Facebook or employment providers such as monster.com (Brouthers et al., 2016)

2.3.2 Digital-platform firms

As this thesis aims to study the DPFs, which operate through modern technologies, there is a need to define the technological aspects of the DPFs. Hence, in this section research on DPFs from the area of information system will be reviewed.

De Reuver, Sørensen & Basole (2018) conclude the research done previously and the future research agenda for DPFs. According to De Reuver et. al. (2018) there has not been extensive research done on DPFs and instead it is slowly appearing on information system literature. De Reuver et. al. (2018) claim that DPFs are a complicated topic for research because by nature they are distributed, and they are associated with different industries and technologies. According to De Reuver et al. (2018) DPFs should be considered separately from non-digital platform firms. Non-digital platform firms have been researched several decades before the DPFs emerged. For example, Rochet & Tirole (2003) researched two-sided markets from 1980s. Platforms have also been studied in the area of industrial innovation management literature (Gawer & Cusumano, 2014) and in economics literature (Parker & Van Alstyne, 2005)

DPFs are disrupting businesses in all industries. Some examples of DPFs that are widely used are Facebook, PayPal, Uber, Airbnb, YouTube, Google, Instagram, Amazon, and Spotify (Van Alstyne & Parker, 2017). They operate in different sectors such as social media, operating system, entertainment, payment platform and peer-to-peer DPFs. A platform is often bringing together two different user groups, for example sellers and buyers. (Boudreau & Hagiu, 2009). Evans (2003) describes how the value for the other group increases as the other group gains more participants. Thus, platforms' function is often to bring users together. In most platforms the value of the service increases as the platform has more users. Moreover, this established network effects. De Reuver, Sørensen & Basole (2018) note that the concept of platform is similar to the concept of ecosystems. Hence, as a research topic, DPFs are complex. DPFs are connected with ecosystems. Moreover, platforms compete against other platforms while they are interconnected through ecosystems. For example, complementary providers can share their product on several different platforms and thus ecosystems around platforms can be overlapping.

The Information Systems (IS) research highlights the technical perspectives of DPFs which is the basis to understanding DPFs. In the IS literature DPFs are only those platforms that offer extensible codebase. There are several ways researchers have explained

the technical aspects of DPFs. DPFs have been described particularly in the information system research. There are various definitions of digital platform. The definition of a digital platform from the technical point of view is to see it as a technical artefact. There the platform is an extensible codebase which is complemented by third-party modules in the ecosystem (Boudreau, 2012; Tiwana et al., 2010). Indeed, digital platforms often go beyond the software product by incorporating modules which can be for example applications developed by third-party developers. (De Reuver et al., 2018). On the other hand, from the sociotechnical point of view, a digital platform can be described as a sociotechnical assemblage containing technical elements, organisational processes, and standards. (Tilson et al., 2012)

The invention of DPFs was made possible by the technological improvements. Information and communication technologies (ICT) and the internet enabled this new type of firm. By definition, the word platform refers to the basis that is designed to fit many purposes and can be complimented with other products. The basis can be shared online. As a consequence of the modern technologies enabling co-development platforms attract innovators to further implement some add-on to them. The global implementation and usage of DPFs has been driven by the changes in information technology that enabled this new type of firm to reach people virtually. (Van Alstyne & Parker, 2017)

In addition to the concept of DPFs another issue studied in IS research is governing these type of firms. A relevant issue concerning the governing of DPFs is *the paradox of change and control*. This means that the platforms should be stable enough to provide a basis for new enrolments, yet flexible for growth. (Tilson et al., 2010) Furthermore, control is a relevant part of the definition of DPFs. Hanseth & Lyytinen (2010) define DPFs a simpler “subtype of digital infrastructure with specific control arrangements”. IS research has found that DPFs differ from digital infrastructures by having specific control arrangements, which are fixed to a specific organisation or group of firms that own the platform technologies. Some IS research (De Reuver et al., 2018) criticizes that management

research on platforms has not taken into account the digital aspect. The concern is that management research sees all technological platforms as homogeneous.

De Reuver, Sørensen & Basole (2018) recommend certain methodological aspects when researching DPFs. For example, platforms should be studied in the long-term. The reason for this is the dynamic and complex nature of DPFs. As they keep evolving fast the results can be considered more valid when the research is done over a long period of time. The table presented below by De Reuver, Sørensen & Basole (2018) shows the main issues, risks and recommendations for DPF research (See Figure 5 below). The issues research on DPFs currently has are unclear concepts and lack of conformity and commonly accepted definitions in different studies which leads to lack of comparability between studies. Moreover, they point out that DPF studies suffer from too narrow scope and lack of contextualized theory. Furthermore, in terms of methodology the DPF research is suffering from lack of long-term studies and bias towards successful platforms and lack of comparability between studies. Moreover, De Reuver, Sørensen & Basole (2018) point out that reliable data concerning design or governing of DPFs have not been accessible to the public due to its confidential nature. Hence, they conclude that data-driven methods are a reliable way to analyse DPFs.

This thesis aims to define the DPFs in detail, and this thesis aims to study the DPFs from the management scholars' point of view rather than in technical way. However, the digitality of the platform is a crucial part of the analysis in the thesis. Moreover, this thesis includes case study analysis and data collected within a longer time period (1st collection 1 year before the 2nd collection round).

Table2 Main issues, risks and recommendations for digital platform scholars

	<i>Issue</i>	<i>Risk</i>	<i>Recommendation</i>
Concepts	Conceptual ambiguity	Platform concept becomes a fad	Provide clear definitions of platforms and ecosystems, drawing upon previous research
	Differing units of analysis across studies	Lack of comparability between studies	Identify the unit of analysis and its boundary
	Differing framing of platforms		Specify whether the perspective on platforms is technical or sociotechnical in nature
Scoping	Importance of digitality	Lack of understanding how digitality affects platforms	Make digitality an integral aspect of the definitions
	Digital platforms appear on multiple levels of technical architecture (vertical scoping)	Sacrificing comparability across studies or relevance and sustainability of discourse	Widen scope of digital platform research
	Platforms are emerging for specific application categories such as payment, share economy, media and health (horizontal scoping)	Lack of understanding how intertwining of digital platforms with systems and institutions affects outcomes	Develop contextualised theory on digital platforms
Methodology	Difficult to isolate unit of analysis	Lack of comparability between studies	Conduct embedded case study approaches to compare platforms within the same larger ecosystem
	Digital platform and ecosystem dynamics have long time horizon	Snapshot research methods do not provide understanding of causalities	Conduct longitudinal studies on platform dynamics
	Bias towards successful cases, studied ex-post	Lack of design knowledge on digital platforms	Study failure cases Employ a design science approach to digital platform research
	Digital platforms are large, complex, and dynamic	Small-scale methods do not lead to holistic understanding	Conduct data-driven approaches, including network analysis Visualise structure and dynamics of digital ecosystems Conduct computational modelling of ecosystem behaviour

Figure 5 Recommendations for DPF research (De Reuver, Sørensen & Basole, 2018: p.129)

DPFs differ from non-digital firms in many ways. DPFs differ from non-digital companies particularly in the way they create value. The basis for creating value is that the firm has a large network of users as *the value creation* process depends on the user network. (Brouthers et al., 2016) The business model of DPFs is to bring value to users by connecting users through their platform. Furthermore, the value chain is not traditional but triangular instead. According to research, platforms often have a triangular business model, in which the platform forms the middle and two user groups are on each side of the platform. The platform commonly unites the producer and consumer. (Van Alstyne & Parker, 2017). Moreover, a distinctive function of platforms is that many platforms function by learning from the users to be able to create more value for the users. For example,

Google learns what the consumers like and those websites then score higher on the search results.

It is crucial to note that DPFs do not have value without their users. The platforms are more valuable the more people are using them and have access to them. Moreover, the way DPFs often make profit is that the transactions go through the provider. Therefore, more people are encouraged to join to make more profit through them. In other words, the DPF facilitates the interactions and aims to increase the amount of users and interactions on its platform. DPFs create value by offering a platform where users interact with each other. Hence, being able to attract a large quantity of users is crucial for the DPF to be able to make profit.

For DPFs they are more valuable the more people are using them and have access to them. Thus, research has found that *network effects* are larger with selling intangible assets as in comparison to businesses selling tangible assets. The networks effects for digital firms are large. For example, there will be negative network affects if there are inappropriate behaviour by some actors on the company's platform. (Van Alstyne & Parker, 2017) Many platforms operate in *two-sided markets*. Moreover, most markets with network externalities are two-sided markets, which means that the platforms must pay attention to both sides and manage to make profit at the same time. (Rochet & Tirole, 2003)

Hence, the *strategy* of DPFs is different from that of traditional businesses such as MNCs described in extent literature, as the strategic objects and goals are different. The focus is not on manufacturing, controlling and differentiation which are the goals for many manufacturing firms, but instead the focus is brought to gaining users and creating an ecosystem that brings value to its users. Because of this huge shift in strategy the DPFs' strategy is different than for example manufacturing firms' strategy. Moving away from differentiation and controlling the manufacturing, the focus is brought to creating more exchanges on the platform. Thus, the main focus has shifted from internal to external

interaction and broad ecosystem value. Because the value is created by the networks, the *critical capabilities* for DPFs are governance to help the community and coordinating the ecosystem. (Van Alstyne & Parker, 2017). When the DPF is viewed from the point of view of Porter's five forces, the shift in strategy comparing typical manufacturing businesses described in extent literature to DPFs is apparent. The DPFs are focused on trying to get more people involved in the business as opposed to manufacturing companies trying to hold off competition and suppliers from entering the same market.

Moreover, for DPFs the crucial problems is to attract a *critical mass* of users to their DPF. When the DPF internationalizes this can mean that the DPF needs to start building the userbase from scratch, depending on the type of the platform. Often the DPFs can find it challenging to enter markets where a rival company has already created a large userbase in the target market. Because of *network externalities* early entrants benefit from a positive loop through every user they accomplish to add to their user network. The advantage of being an *early entrant* makes it harder for later entrants to compete (Brouthers et al., 2016; Sun & Tse, 2009; Zhu & Iansiti, 2012). A new entrant might benefit from acquiring a local company or partnering with a local one instead of trying to enter the market on its own. (Stallkamp & Schotter, 2019)

2.4 Internationalization of digital-platform firms

This thesis focuses on explaining the internationalization process for new type of companies, DPFs. More specifically, this thesis examines how digital platforms can enable or hinder the internationalization process. Currently more research is needed on the topic as the existing research focuses mainly on the positive sides of operating through a digital platform. In addition, the research overall is lacking. In this last section of the theoretical background, DPF internationalization is briefly analysed.

Brouthers et. al. (2016) examine how internationalization theories can be adapted to understand the internationalization process of the new types of companies; DPFs. They argue that DPFs suffer from *liability of outsidership*, when penetrating foreign markets.

Thus, DPFs should focus on gaining users. They suggest that the internationalization process is different for traditional firms in comparison to DPFs. As DPFs' services are offered online, once the company is accessing new foreign markets, they do not face such investment risks as a manufacturing company would. Hence, Brouthers et. al. (2016) suggest that the DPFs largest challenge is often developing a substantial amount of users in their platform's network. Similarly, Yonatany (2017) examines how development in the information and communication technologies has enabled platform-based firms to expand globally fast. Hence, their technology-focused organizational form affects their internationalization process. Based on prior research Yonatany (2017) emphasises that *psychic distance* and *liability of foreignness* are crucially important concepts in IB research. However, Yonatany (2017) argues that psychic distance and liability of foreignness are not crucially important concepts for DPFs since they can internationalize globally, and provide "one universal platform". Therefore, there are opposing opinions in the prior research (Yonatany, 2017; Brouthers et al., 2016) whether DPFs can truly operate globally effortlessly, or they are affected by hinders in their internationalization process even though their business is digital.

As ibusinesses differ from manufacturing companies and MNCs, their value creation process is unique. Moreover, also their internationalization has been argued to differ from the internationalization process of companies that do not operate through digital means. Ibusinesses are argued to not suffer that much from investment risks, but rather from the liability of outsidership (Johanson & Vahlne, 2009; Johanson & Mattsson, 1988). Ibusinesses often face trouble when building the user network, which is often considered to be the most important thing for ibusinesses (Brouthers et al., 2016). Monaghan et al. (2020) add that DPFs that operate in multi-sided markets often manifest network effects. Network effects mean that the value of the service increases as the amount of users increase. Users value a platform with a larger user base and users benefit on the interaction with other users.

In addition, Westerlund (2020) has examined some hinders in the internationalization of DPFs. There are opportunities for digital-platform SMEs in global markets. To be able to internationalize, DPFs must be designed to scale their operations and do so through the digital platform. More specifically, Westerlund (2020) finds that SMEs which are looking to scale operations internationally digitally, must develop skills in creating partnerships, nurturing the customer relationships, managing the business processes and invest in information and communication (ICT) resources. (Westerlund, 2020). Moreover, in terms of hinders, Jean et al. (2020) found that digital-platform risk decreases the scope of internationalization for international new ventures. They specify antecedents for digital-platform risk which are product specificity, foreign market uncertainty, foreign market competition and home market institutional voids. They conclude that the entrepreneurial orientation of an INV helps overcome the negative effect which is the decreased internationalization.

Scholars have examined which internationalization theories can explain the internationalization of digital firms. Ojala, Evers, Rialp (2018) claim that the internationalization process of DPFs is a unique type of internationalization. Similarly, Brouthers et al. (2016) suggest that the linear, incremental internationalization theories do not fully reflect the internationalization process of DPFs. Ojala et al. (2018) argue that network theory (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009) can be used to examine their internationalization, how they gain access to resources and partnerships. However, in 2003 Mahnke & Venzin stated how internationalization theories should be developed to explain the internationalization process of a digital information good provider firm. Mahnke & Venzin (2003) divide the research on internationalization into three different streams: the stage models of internationalization, internationalization theory, and lastly, the research on international new ventures. According to them, all the different streams on internationalization research can be used to explain the internationalization of digital information good providers. In contrast, Monaghan, Tippmann & Coviello (2020) question whether the digital aspect of a business changes them enough to challenge the

major internationalization theories. They argue that there is not one theory that could be fully explanatory for firms' internationalization process.

Scholars argue that DPFs also differ from each other when internationalizing. One of the determining factors is whether the DPF is focused on selling services or physical products. Depending on this their internationalization pathway could be different. Banalieva & Dhanaraj (2019) argue that IB research on e-commerce or digital firms has concentrated on service-intensive firms such as Facebook, Amazon and Airbnb. (Kotha et al., 2001; Singh & Kundu, 2002). The service-intensive firms do not own that much physical assets but instead in internationalization they utilize technology and scale up operations using local partners' resources in addition to their own. (Collinson & Narula, 2014; Hennart, 2009). Moreover, Monaghan, Tippmann & Coviello (2020) argue that digital firms overall are generally scalable and often their internationalization process is time-compressed, has a wider scope and is not based on physical footprint.

The concept of virtual trap is very relevant to examine internationalization of DPFs. Therefore, it will be presented in this section in addition to research on how digital aspect of firms affects their internationalization process. Jean, Kim & Cavusgil (2020) stress the importance of internet for internationalizing firms as internet is a low-cost medium for internationalization. Similarly, Westerlund (2020) has studied how digitalization enables digital SMEs to scale and internationalize. The crucial aspect of digital imprint in firms is shown to enable firms to scale up their operations and makes their internationalization faster. (Westerlund, 2020).

Internet has changed the way companies internationalize. Due to technological advancements and the large amount of internet users worldwide, internet can help companies improve their business functions and increase competitive advantage. Processing information, connecting to users worldwide and using internet as a sales channel are among the examples on how internet has increased potential for businesses. The internationalization opportunities provided by internet are important for SMEs. However, Sinkovics,

Sinkovics & Jean (2013) highlight the dangers of concentrating too much on an online presence. Their study analyses the drivers and performance outcomes of the two different ways of using internet to enhance export marketing. The article states that firms use internet either as an alternative to the physical stores or they use internet as one of the sales channels to support their export marketing. The findings of the study summarize the dangers of erasing all physical presence in the foreign market and only concentrating on the internet. In the study the firms' performance decreased when physical market presence was replaced completely by online channels. Sinkovics, Sinkovics & Jean (2013) note that born globals suffer from the greatest risk of falling into *virtuality trap*. In other words, this means that born globals can overestimate the power of the internet and focus all their efforts only on online channels and discard any physical market presence.

This leads to problems because many of the key learnings and market information is gathered through the intermediaries, such as foreign distributors or agents. Hence, without the relationships and networks on-site the firm lacks vital information needed to succeed in the foreign market. This phenomenon supports the evidence that SMEs should not focus too much on online channels but instead use internet as a complementary channel. In any case building relationships and networks on-site is highly recommended by research. The findings of Sinkovics et al. (2013) show that IT resources such as internet should be complemented with non-IT resources to reach an ideal firm performance. Hence, companies should not neglect creating an offline strategy that complements the online strategy. As firms aim to enter foreign markets, they need to gain knowledge of the local markets and customer tastes. Therefore, intermediaries are required as they can help the firms gain key local knowledge. However, as Sinkovics, Sinkovics & Jean (2013) internet is a functioning way to acquire new customers and gain market responsiveness. (Sinkovics et al., 2013)

Based on the presented theoretical background, this thesis examines specific type of firms – the DPFs. Moreover, the thesis draws on internationalization theories, mainly Uppsala model (Johanson & Vahlne, 1977) and Born global (Rennie, 1993) and International new venture (McDougall & Oviatt, 1994), and the concepts of psychic distance and

liability of foreignness. The Uppsala model represents the traditional research on internationalization of firms. According to the model internationalization happens incrementally. Therefore, it is useful to utilize also Born global theory (Madsen & Servais, 1997; Rennie, 1993; Knight & Cavusgil, 1996) or international new venture theory (McDougall & Oviatt, 1994) in which internationalization can happen straight from the inception of the firm instead of gradually. Hence, both approaches will be used to examine the internationalization process of DPFs. The prior research argues that MNCs follow the Uppsala model whereas highly technological start-ups follow the born global model. (Cannone & Ughetto, 2014; Fletcher & Harris, 2012; Knight & Cavusgil, 2004). This will be addressed in the thesis. In the case of DPFs, the research is scarce, and it is not fully known how their internationalization process goes. It could be assumed based on the prior findings that often highly technological digital-platform SMEs would follow the born global model. As research has highlighted, they are scalable, grow fast, and their business model could be even copy-pasted to foreign markets.

3 Methodology

In this section, the methodology and research design will be presented and justified. The author explains how the chosen methods were applied to analyze the gathered data.

3.1 Philosophical assumptions

Considering philosophical assumptions is a crucial part of preparation for the research project. According to Creswell (2012), the following five assumptions lead to the choice of conducting qualitative research: the ontological, epistemological, axiological, rhetorical and methodological assumptions. This thesis follows interpretivism paradigm. The methods are inductive, the sample is small, the data are qualitative, and the analysis is in-depth. In terms of axiology the author's interpretations are key contribution of the study, and in terms of epistemology the contribution of the study is new understanding. Furthermore, in interpretivism the ontology can be defined as having multiple meanings and being constructed socially. (Saunders & Bristow, 2015, p.136).

There are different approaches to developing theory. The three different approaches are called the inductive, deductive, and abductive approach. These are the three types of reasoning (Thornberg, 2012). Hence, they represent different ways of drawing conclusions and explaining phenomenon based on existing information. The inductive approach aims to produce novel findings and further develop the existing theories building on the findings from collected data. On the other hand, the deductive approach aims to test current theories and bases the research on a pre-existent theoretical framework. Hence, whereas inductive approach focuses on creating new findings from the data, deductive approach focuses on interpreting a phenomenon that is already recognized in research. Moreover, the abductive approach means examining how data prove existing theories, and what in the existing theories should be changed to make them more accurate (Thornberg, 2012).

This thesis utilizes the inductive approach. There are several reasons why the inductive approach was chosen for this thesis. First, it used because the objective is to develop the existing theories based on the collected data. Second, there is a risk that when the research leans on a specific framework, the researcher might overlook themes in data that are not explained in the framework and only detect issues that are explained in this framework. In addition, using a specific framework might make the researcher over-interpret data. To avoid this dilemma, the adhered inductive approach gives the researcher the opportunity to be driven by the data and draw conclusions from them. This is done by identifying a pattern in the data to infer general statements about them. (Flick & Uwe, 2017). Moreover, Reichertz (2007) supports the notion that induction concentrates on the data and can produce new understanding of existing knowledge. Hence, this thesis follows the inductive approach to generate findings on a modern under-researched topic of DPF internationalization.

3.2 Research strategy and method

Because the aim of this thesis is to examine how digital platforms enable and/or hinder internationalization of SMEs operating through them. The qualitative methodology is was most suitable way to meet the objective. This is because the qualitative research is used to understand complex phenomenon. This suits the objective of the thesis - aiming to understand the internationalization process of digital-platform SMEs. In addition, the data were collected through case studies because it is a suitable way to gain comprehensive and contextual in-depth understanding. Case studies are also useful for providing complex and diverse conclusions. Creswell (2012) states that case studies analyse an activity or people over time based on in-depth, detailed data, which include several sources for the information. Moreover, case studies were chosen for the thesis as they are often used in business research as they have the capability to portray complex business issues in a practical format. (Eriksson & Kovalainen, 2016)

Yet, it is important to note that qualitative data are known to have some weaknesses, for example, findings from qualitative inquiries are difficult to generalize. However, the

strengths of the methodology outweigh its weaknesses. Qualitative data are effective for producing non-trivial findings in an under-researched area. Even though semi-structured interviews might not be generalizable, they offer information that might have not emerged if the questions are completely predetermined. By allowing the interviewees to speak on matters important to the company in their own words, the author was able to determine what were the biggest hindrances and advantages in the internationalization process of a DPF.

3.3 Case selection process

Given the aim of this thesis, the selected case firms were chosen based on the following criteria:

1. The company must be a digital-platform firm;
2. The company must have international operations; in addition to operating in Finland the company must have operations in at least one country other than Finland;
3. The company must be founded in Finland;
4. The company must be a small or medium enterprise (SME) according to the definition by European Commission. According to Tilastokeskus (2020), in Finland *SMEs are defined as companies*, which have less than 250 employees, and an annual turnover of 50 million euros or less and an annual balance sheet total of 43 million euros or less, and which is not owned for 25% or more of the capital or voting rights by one or several companies, falling outside the definitions of a SME. European Commission follows the same criteria as according to the European Commission (2020) SMEs are companies which have less than 250 employees, turnover does not exceed 50 million or annual balance does not exceed 43 million euros. In addition, an SME must fulfil the independence criteria, meaning that the company does not hold 25% or more of another enterprise. Hence, this criteria was used in case selection of the thesis.

As internationalization is the key focus of this thesis, for the purposes of analysing the internationalization efforts of a company it was in the author's interest to include analysis of company or several companies that were operating in several foreign countries. In other words, the author wished to include analysis on a firm that has reached more mature stages of internationalization to receive more information and understand how

the internationalization process proceeds. Hence, in this thesis companies from different internationalization phases are analysed, some operating in a few foreign countries and some operating in tens of foreign countries. All the firms are relatively young as they are founded less than 10 years ago. In total, three companies were selected for the study. Although analysing more interviews would have been advisable to produce more generalised findings the author was able to find common themes, patterns, and differences within data from the three companies.

Company, year of inception, and the core business	First international market entry and the other markets	1st round of interviews: interviewee, date, duration	2nd round of interviews: interviewee, date, duration
Company 1 (2013): an online B2C booking-service platform bringing together venue providers and people/organizations that are in need for event spaces	2015, Sweden Possibilities to book from Finland, Denmark, Poland, Estonia, Germany, Spain, Italy and UK	Co-founder; 15.1.2020; 75 min Co-founder; 20.1.2020; 65 min CEO, Co-founder; 30.1.2020; 67 min	CEO, Co-founder; 9.12.2020; 71 min Head of expansion; 7.1.2021; 69 min Co-founder
Company 2 (2014): a food delivery B2C service that operates as an online platform bringing together restaurants, delivery carriers and food consumers	2016 Estonia, Finland, Sweden, Denmark, Latvia, Lithuania, Croatia, Czech Republic, Norway, Hungary, Georgia, Israel, Poland, Serbia, Greece, Azerbaijan, Slovakia, Slovenia, Kazakhstan, Cyprus, Malta, Japan, Germany	CEO; 7.11.2019; 55 min Director of new markets; 14.2.2020; 53 min Head of expansion; 20.2.2020; 78 min	Head of expansion; 18.12.2020; 45 min Director of new markets; 3.2.2021; 65 min
Company 3 (2015): an online B2C marketplace platform that brings together sellers and buyers of second-hand clothing and accessories	2018, Sweden Finland, Denmark, Germany	CEO, Co-founder; 13.2.2020; 64 min	CEO, Co-founder; 27.1.2021; 76 min

Figure 6 Information on case companies

3.4 Data collection

This thesis is completed as a part of a bigger research project devoted to international business models of digital-platform firms; participation in this project allowed for the access to the longitudinal data. The data were collected through semi-structured interviews from the selected case companies. the interviews were collected in two rounds, precisely, in December 2019-March 2020 and in December 2020-March 2021. The author if this thesis took part in conducting interview during the second round.

Given the scope of master-thesis projects and the relatively short time allocated for completion of the thesis, three firms seem to be a reasonable number of cases for drawing meaningful conclusions but still not drowning in the amount of data and fulfilling the thesis submission deadlines. Flick & Uwe (2017, p.244) point out that “By focusing on depth, researchers sacrifice breadth, whereas focusing on breadth precludes depth”. To reduce informant bias, the aim was to include analysis of interviews from several people per company. With two of the case companies, several people are interviewed on two rounds, and with one of the case companies one person is interviewed on two rounds. In total, 11 interviews were conducted. The interviewees are the senior management (like Chief Executive Officers, founders and/or Heads of Expansion) of the case companies.

Some of the interviews were conducted through online meeting tools such as Zoom because of the ongoing Covid19 pandemic. When possible, the video was utilized to create an environment similar to face-to-face meetings. Moreover, video in the online meetings helped create trust and analyse the facial expressions and speech such as in a face-to-face interview. The interviews lasted around 1 hour and they were conducted in English. In the interviews, instead of asking very short and survey-style questions, the interviewee was encouraged to explain issues in detail, develop a story of internationalization of their firms and provide their unique view of this process. In addition, unlike in predetermined structured questions, the interview was semi-structured, and further questions and clarifications were asked from the interviewee. This was because inviting interviewees to engage in extensive descriptions rich in detail is encouraged for the interviewer to gain knowledge about their patterns of thought and opinions. Moreover, the topics that were discussed in interviews moved from broader to more specific questions. Open ended questions were used instead of closed questions as suggested by scholars. (Flick & Uwe, 2017).

In the interviews, the questions asked involved the internationalization process of a digital-platform SME. The participants answered questions on their biggest challenges faced when internationalizing, and the most important learnings gained throughout the process. In addition, they explained how the process of internationalization had evolved overall since the decision to take operations abroad. All the interviews were recorded. Permission for recording was asked from participants prior the interview. Further, the records were transcribed verbatim into a text format either by using specific software or manually. Overall, the raw textual data consisted of over 116 pages of transcribed interviews (12 Times New Roman; single line spacing).

3.5 Data analysis

Qualitative research includes informal analysing data simultaneously while collecting the data (Eriksson & Kovalainen (2016). The process is called iterative because the researcher moves back and forth between the newly collected data and its immediate analysis; this is important for moving through an interview and formulating further question in relation to received information. There are different types of ways of analysing data. Content analysis focuses on the meaning of the words. On the other hand, thematic analysis aims to code the data and analyse it to identify themes and patterns. Moreover, discourse analysis refers to the analysing the meaning of communication in relation to the social context. This thesis focuses on thematic analysis.

In this project, the initial data analysis started already before the actual interview meetings. Company web-pages, press releases, blogs, Facebook and LinkedIn pages were used to prepare for the interviews, tailor make the interview guides and further verifying the facts obtained during the interviews. Examining the firms' public presence and internationalization efforts helped to understand what the participants meant by their answers. (Flick & Uwe, 2017). The data were in written form and stored in a digitally. The author took notes on the interviews immediately after they were conducted.

Further, the author read through the transcripts one by one, identifying and classifying themes through assigning specific codes to the chunks of data. According to Eriksson & Kovalainen (2016), coding is defined as categorizing features, issues, themes in the data and giving their category a name, a code. In addition, the author kept on taking notes for example on issues that seemed to contradict prior theory and on the other hand, things that were textbook examples of certain internationalization theories. As Eriksson points out, even when inductive approach is taken in the research, concepts from existing theory can be used to code and analyse data. This juxtaposition is essential to identify the relationship between the findings and other research that this thesis informs. (Eriksson & Kovalainen, 2016)

Moreover, inductive logic is used in coding because researcher starts with the data and identifies and groups similar data under codes. Similar codes were put together and positioned in a way that portray the connections between groups of codes. In research analysing, the data can include using or ignoring previous theoretical research. (Flick & Uwe, 2017). In this thesis, the aim was to use prior theoretical knowledge and position the new findings in relation to this prior research.

The data analysis was done in the following order: each individual case was analysed first separately. In other words, first the within-case analysis was conducted. Following, the cases were compared and analysed against each other to be able to generate findings. (Eriksson & Kovalainen, 2016) The common themes and findings from the interviews and on the other hand their differences are concluded in the findings section in the thesis. In terms of ethical considerations, the protection of anonymity was a high priority in this study. For the purposes of maintaining the companies' anonymity, the companies will be named in this thesis as follows: Company 1, Company 2 and Company 3.

3.6 Limitations, reliability, and validity

This research possesses its limitations as all research does. While qualitative data offer in-depth understanding of the internationalization process of digital-platform SMEs, it

might not be able to produce generalized findings. Therefore, the limitation of the approach is that the findings might not be generalized to apply to all DPFs. Three companies is not a large enough sample size to demonstrate that the reoccurring themes found in the interviews would apply to all DPFs. Moreover, the geographic limitation of the study is that all companies included in the thesis were based in Finland. As the topic researched is internationalization, it is assumed that companies for example from different continents might face different hinders when trying to take their operations abroad. It can be assumed that the country of origin might impact on the challenges faced when aiming abroad. Hence, some enablers or hinders of DPFs' internationalization might not appear on the data that would have if the study took place in another geographic area.

As for the quality of this study, The longitudinal data improved the accuracy of the study and helped the author to see how the internationalization process progressed in the case firms. De Reuver, Sørensen & Basole (2018) recommend using longitudinal data when studying DPFs because they are complex and changing. Furthermore, it validated the answers given because if a firm gave a specific argument on the first round of data gathering the same firm might have given the opposite argument on the second round, based on their experiences between the two rounds of data gathering. Hence, any opposing arguments grasped the interest of the author. For example, if future plans of firms had changed, it made the findings valid to have longitudinal data and see those changes and understand why the firms did not go with the original plan.

Furthermore, reliability of data refers to how scientifically consistent the findings are. There are several risks that can harm the reliability of a study, most common ones being bias. Moreover, as Flick & Uwe (2017) point out, one issue with qualitative research could be that when social interaction is recorded on a device the participants of research might talk in a different way than when the interview would have not been recorded. This is named the Labov's (1972) observer's paradox. In addition, it should be noted that in the interviews the interviewees answers might differ depending how they understood the questions. For example, when comparing answers from interviewees of different

companies the author intended to take into account how interviewee understood the question and analyse the answer accordingly. Moreover, the interviewee's personality or personal beliefs or opinion might reflect on their answers. Moreover, to ensure that the data are objective and not solely based on personal views of a specific person, the aim was to interview several people from each company. For varying reasons, such as time schedule constraints and lack of resources, it was not possible to get interviews from several persons from every company. However, the author believes the interview answers to give a truthful image of the internationalization efforts of each DPF interviewed. In terms of validity of the data, the author validated data by utilizing secondary data and comparing the interview answers to the secondary data gathered from the press or websites of the case companies.

4 Findings

In this section and the following discussion section of the thesis, both enablers and hinderers are presented together because the same factor can serve as both the enabler and the hinder. The presentation of findings is organized around several themes that all case companies shared: *internationalization, copy-pasting vs. localization, and local physical presence*. In addition, the findings are presented by examining each of the three case firms. For the anonymity purposes the author also shows the information provided by interviewees of each company as the experiences of that company without labeling the name of the person interviewed. Instead, the persons interviewed will be identified by their job title, only when using quotations.

4.1 Company 1

Internationalization

The business idea for Company 1 came from two students who entered a program called summer of start-ups and won it. At the time Airbnb was extremely trendy and investors were looking to invest in DPFs. Therefore, the founders of Company 1 aimed to create a DPF like Airbnb, being a marketplace for event spaces. Eventually the company grew from 4 people to 15 and in Finland they have over 4000 venue providers.

Their internationalization started in a country next to the home market. In 2014 Company 1 took their first internationalization steps in Sweden. The interviewees call this a set of “tests”, which shows their mentality of the internationalization being a learning experience, where they could test certain actions and modify the behaviour accordingly. The interviewees from Company 1 explained that internationalization is not simply a process moving forward at all times, but instead it is common to have periods of putting operations on hold and continuing later. In Sweden, the internationalization was not linear but instead there was periods of postponing internationalization. At some point, they had nobody working on the country but later they did again. In addition, the interviewees state that some countries are active, and some are passive. Some work without

effort, because once they have been set up, they might not require an employee to actively work on them. *“When I arrived, I kind of took control of the Sweden too, but at that time it had been already been on a pause mode for 1,5 years”* (CEO, Co-founder, 1st round) Moreover, the CEO explained how developing Swedish market has been put on pause and later reactivated again. This suggests that postponing internationalization and continuing it later can enable successful internationalization and testing markets is an important way to internationalize.

A surprising finding that appeared in the interviews was that, even though DPFs could internationalize to distant markets anywhere in the world, the Company 1 started internationalization in a market with low geographic and psychic distance. The interviewees of Company 1 state that many DPFs from Finland go to Sweden, even though from their experience it often does not work. *“Yeah, the whole Sweden thing, it has really been tough for everybody... It’s said that it’s the place for Finnish companies to go and fail. I would never advise anyone to go there, even Norway is similar. It might all come down to culture.”* (CEO, Co-founder, 1st round)

When asked about why the DPF did not succeed in Sweden the Co-founder explained that it seemed to be a logical choice due to little competition and they thought the culture would be similar. Moreover, they tried to internationalize with the new business model, which increased the challenges. *“Not too much competition, easy language, to some extent similar culture. It should be easy, but then again very often Sweden is super hard for Finnish companies. And what we learned afterwards is that more often Finnish companies that go to Sweden usually fail miserably... We went there a bit too early I would say at least the main point here is that don’t try commercializing or internationalize a business with a model that you haven’t even proved in your base country.”* (Co-founder, 1st round). In addition, the Head of expansion explained that the struggles faced in Sweden could be in fact because they simply had copy-pasted the business. *“I think one of those reasons why we struggled with Sweden is we just copied our Finnish platform.”* (Head of expansion, 2nd round)

Interestingly, Company 1 did not seem always seem to focus all their efforts on the target market when they internationalize, but instead test the market first. The interviewees of Company 1 explain that testing different countries has enabled their internationalization and helped them to see where there would be best opportunities for them and then start focusing on them. In the test phase they acquire firms (the supply side) to their platform and see if there would be interest (the demand side) for the service. These types of soft launches enable the company to enter new markets with less effort, investment, and risk. The interviewees explained that testing is fairly easy to do because for DPFs they might just need to set up the website in the local language and get some partners on board to see if there is demand. If they see that the country is promising they will go all in the country. Thus, their market entry decision was often based on the testing. “It has been really good. Spain and Poland have been really promising. So, we’re now focusing more on Spain.” (Co-founder, 1st round)

In addition, the CEO Co-founder explained that to avoid unsuccessful internationalization, Sweden should have been “soft launched” first, but instead they made the mistake of “just going there”. Hence, for DPFs soft launches and testing seem to be an enabler of internationalization. *“Well, I think he’s talking about the burn. So, we spent 400K on Sweden alone in one year and it didn’t work well. Soft launching Denmark, Poland and Spain it cost us 30K, so with 400K we should have soft launched maybe the whole Europe and then see where to go next.”* (CEO, Co-founder, 1st round)

As for choosing foreign markets, the interviewees explained that first they do market research. However, the interviewees also noted that start-ups do not have resources to hire consultants to do the market research, and they often do it themselves with limited access to information: “We didn’t cover all but most of Europe’s countries, we did a basic competitor research, some SEO volume research, like how much volume does certain key terms have. I think mainly it was the competitor research and how do we see the market, is it interesting.” (Co-founder, 1st round)

As it was with other case firms, also in the firm 1 the interviewees states that one of the most crucial factors hindering internationalization of DPFs is how much DPFs are affected by heavy competition in that market. Because they operate in multi-sided markets, as mentioned before, they need to pursue enough players on both their supply and demand side. If in the foreign market the DPF is entering there is already a large competitor, the partners working with the competitor are unlikely to switch working with the new DPF entering, and hence they cannot enough supply on the digital platform that it would attract users to the platform. For example, the firm's decision to enter Sweden was done on the basis of competitors. In other words, there was no big competitors in the Swedish market. Unlike in the beginning of internationalization for other case companies, more scientific market research was also conducted. DPFs are also protected against competition because entering new markets is challenging: *"It's so hard to expand the new markets so it also gives you protection against competition. (Co-founder, 1st round)* The other Co-founder added how important timing is for the internationalization to be successful: *"It's the timing things, Airbnb for example timed their very well. It would have happened at some point, some player would have taken the market, but they were able to time it very well."* (Co-founder, 1st round)

Because the lack of competitors on the target market enables the internationalization of DPFs strongly, this point was highlighted in all case firms often. The CEO of Company 1 added that competitors are one big determining factor for choosing markets to enter. *"Spain was chosen for the lack of competition, like the lack of event marketplaces and second reason was that there was not competition in google so we thought the SEO penetration would be easier for us."* (CEO, Co-founder, 1st round)

When the interviewees were asked about why they are focusing only on Europe, they explained that the decision is based on competition and the psychic distance. *"All America is just, also the same for UK, there is too much competition, and the SEO is a lot harder. SEM is way harder. Asia - we have not looked at all, mainly for cultural reasons. It feels stranger. I think that's the only reason."* (CEO, Co-founder, 1st round) They CEO stated

that if they were ever going to Asia, they would definitely need a local person to join their team. Moreover, in the interview it came up that international expansion requires profits from other market which might mean that although DPFs could copy-paste their technical side of the business fairly easily, another hinder is that it requires a lot of funds to do the localization, they have the physical presence in the target market. *“Well, Finland is profitable now, so we are using Finland to fuel the expansion to other countries.”* (CEO, Co-founder, 1st round) In addition, the interviewees state that one of the main reasons to go abroad is the opportunity to get more revenue and funding.

Copy-pasting vs. localization

Even though the company is digital, the interviewees from Company 1 stated that their business requires local approach because of the industry they operate in. Company 1's interviewees explained that because the business model is to offer event spaces the business is highly local. However, their business is very digital and in technical aspect can be copy-pasted from one country to the next effortlessly. Hence, Company 1 is both global and local. *“The key thing that has to be understood about Company 1 is that it is a hyper-local marketplace, even though it's online. People are buying and selling geographically in a small area so even if we think about, a supplier in Turku is not very relevant for me if I'm organizing a birthday party in Helsinki, maximum in Espoo.”* (Co-founder, 1st round)

As mentioned earlier, because Company 1 is a DPF, they operate in multi-sided markets meaning they have to manage often both supply and demand. Therefore, global-local issues do not only hinder the internationalization process when trying to gain demand but also when trying to get supply. The interviewee explained that new companies did not join the platform easily, and platform could not simply be copy-pasted from one city to the next. The interviewees stated that in the technical sense copy-pasting was possible, but finding people to use and join the platform was a hinder. *“So even in Finland we have the problem that we have a lot of action in Helsinki. If we would call to Pori, they would say that “Well you don't have any places listed in Pori... How many bookings you*

have to Pori at the moment?” and we're like “Well... zero.” Well, then they're like “Call me when you have one hundred a day”. And the further you go, the barrier of how to get the service-providers on board increases... Copying the software to another geographical location, that's not the issue.” (Co-founder, 1st round)

It occurred in the interviews that against the odds, a DPF in fact needs to change and operate differently in every country. The CEO explained that copy-pasting is not possible, but localization is always needed when entering a new market: *“The user gets a bit different experience when they're using the site when they're trying to organize an event, from country to country. So, we're not just like copy-pasting it. The functionality, of course stays the same.”* (CEO, Co-founder, 2nd round) In addition, for the Company 1 the monetization has also changed from country to country. There are several things that are modified when going to a new country. The interviewees stated that even the way of monetizing depends on the country. The interviewees stated that some DPFs enter countries in the hopes of gaining a user basis first and later focus on monetizing it. In addition, the interviewees explained that their monetization model is based on trust between the firms and themselves, and therefore it might not work in some countries as well as in others. Therefore, in certain countries they might change to a fixed model. The Co-founder explained how each country had different strategy: *“Well, we have had little different strategies, we did Spain, Poland and Denmark with little different approaches. We have tried different kinds of tactics.”* (Co-founder, 1st round)

Moreover, the findings suggest that cultural differences or habits affect the DPFs performance in each country. It is a hinder for internationalization that the DPF does not have knowledge about the local market and its' culture. For example, users finding the platform in Sweden is not working like in Finland: *“They are not looking at them in google like Finns are.”* (CEO, Co-founder, 1st round). Co-founder explained that there are differences in each country as they have learned in Sweden. They had troubles in Sweden with their conversion rate, which was way lower than in Finland.

The interviewees were not sure what was the reason behind it but assumed that cultural differences and different habits might have something to do with it. *“Well, there is multiple reasons I think and then there is the x-factor which might be the culture.”* (Co-founder, 1st round) The interviewees explained that cultural issues require changes to the platform so that it can provide a proper user experience for the local users. *“Copying the business model is quite easy, but I think that like copying the business model on a big scale is easy, but then you have all different small things in the new market that are different. For example, in Sweden, it was really easy to get venues in board. Because in Sweden, they are like “okay sounds interesting, like it’s nice to try new things, when can we start, let’s try it out”. So, we realized that the culture was more positive towards trying new things. There was a huge difference.”* (Co-founder, 1st round)

Local physical presence

Surprisingly, Company 1 struggled with no local physical presence in the foreign market. Interviewees stress the importance of someone from the existing core team of the company to go live in the target market and to understand the target market’s culture and find the best people to join the team. In addition, they need to establish an office. *“There needs to be physical presence. At least with this type of marketplace... I think one of the team members should just go and live in the country, because I think it’s easy to find people to do a specific job really well, but it might be hard to find people who understand the big picture and who can look really find the handicaps and the small adjustments in the operations.”* (Co-founder, 1st round) The interviewees explained, for example that if they were opening an office in Spain, they would definitely hire locals as all their users are Spanish people. This shows lack of cultural knowledge and language barriers are hindrances of internationalization also for a highly digital DPF. Moreover, the product is very focused on the geographic location, so the business is highly local. Hence, the findings show that although Company 1 is international, it is also very local: *“It’s a local market and 99% in Madrid will be organized by people are Spanish.”* (Co-founder, 1st round) The Head of expansion explained how each country has their local team is enabling their internationalization: *“Each country has their professional. You know, I don’t tell the Polish*

team or the Spanish team what they need to say because they are professionals when it comes to how to build trust with their local venue providers” (Head of expansion, 2nd round)

However, the CEO Co-founder explained that while the foreign market is not that big yet, it makes sense to keep employees in the home country office: *“But I think for the cultural reasons why we want to keep everyone here.”* (CEO, Co-founder, 1st round) Moreover, the Co-founder states that for the testing phase they do not need local physical presence in the country. However, later physical presence is needed: *“We don’t need local teams at first and then when we actually see which countries work, we can start building a real team.”* (Co-founder, 1st round) In addition, the Co-founder explained that in the long-term physical presence in the country is needed. It would be important to be able to develop good relationships with the firms that offer their event spaces on the platform and meet those people in person. It appeared in the interviews that a DPF could manage to run their operations with minimum effort once the specific market has been completely set up. *“The great thing about marketplaces is that once you get it up, it won’t fall. Unless let’s say people wouldn’t organize events anymore which sounds pretty weird that it would happen.”* (Co-founder, 1st round) The Head of expansion added that once you have launched a certain market successfully, with local presence, it might be able to run on its own. *“That is the good thing about online platforms. First, you kind of need to build the infrastructure, the technology which has been built years ago, and then in our industry you need to supply which is the providers the menu providers. But after optimizing the website it’s basically the bookings happen automatically.”* (Head of expansion, 2nd round) The interviewee explained that this way growth cannot be achieved. It seems based on the findings that DPFs need to balance between automated business and copy-pasting to be scalable, but also localization and physical presence to enable the internationalization.

The interviews stated that sending someone abroad requires a lot from a start-up or SME and that can be a hinder for internationalization: *“The problem with start-up is, I guess you have heard this many times from different places, is that you are so scarce on*

resources and on money and everything, so sending someone to the new country requires a lot from the person, but also stretches the company quite a lot.” (Co-founder, 1st round)

In addition, the knowledge about local markets is considered very important by interviewees. *“I think that, if I think what is important for start-ups in general is to understand that what you need to do in the new market, what you don’t need to do and what you need to change.”* (Co-founder, 1st round). Moreover, the interviewees state that as internationalization is challenging, Finland is still the main focus. Finland is considered crucially important because there is most demand and opportunities and operating in Finland is simply easier than in the foreign markets.

4.2 Company 2

Internationalization

The interviewees of Company 2 explained that their firm is highly global and local at the same time. Company 2 operates in food delivery industry and food delivery happens in a very local scale. Thus, when the DPF internationalizes they go to a city, instead of a country. The CEO explained that for a food delivery company starting in Finland was a challenge, because as research states population density is one of the key factors to make a food delivery company profitable and successful. *“It’s all about the technology we have built, like we started in a very difficult environment in Nordic markets, where city density is low, labor costs are high, income disparity is low.”* (CEO, 1st round) The CEO explained that their expansion strategy had worked well in foreign markets. The Company 2 captured numerous foreign markets from the 1st data gathering round to the 2nd round and could be classified as born global company that has been seeking to become international since their inception.

The head of expansion explained how first the Company 2 grew in Helsinki and put their processes in place and there as the funding was gathered, they expanded to some other major cities in Finland. After successfully launching new cities, they expanded abroad. Surprisingly, even though the DPF is so highly digital that it could internationalize technically anywhere they chose to enter Sweden first. It turned out not to be a successful

launch, but it is unclear whether that was because the market was not a good match or because their internationalization was hindered by their lack of experience. *“Ok, this is how launching the city works. Now it is time to launch another country... We were thinking which would be a good country for us. We thought of Sweden because Sweden is right next to us... But if we look at Swedish market with our current understanding and experience, we would never go to Sweden. It doesn’t matter which country you start first it always will be a disaster; when you step into unknown, you just have to figure it out along the way.”* (Head of expansion, 1st round) In Sweden, the mistakes were made; they for example, based pricing on assumptions that in the end turned out to be wrong. The interviewees stated how inexperience caused them to make wrong decisions, but in the end the findings suggest that these mistakes turned out to be valuable lessons learned that enabled their internationalization in the other future markets. *“All were just wrong. We still did not have an expertise or experience to make valid assumptions. It was a learning lesson for all of us, we did not even have the team structure in place... It wasn’t a market research. We were just like... Sweden! Let’s go!”* (Head of expansion, 1st round)

Because Sweden was the first foreign market they entered, interviewees explained they still lacked experience and know-how. However, as stated their experiences taught them valuable information that was utilized in the next launches. The learning happening throughout internationalization process: mistakes made in first countries are valuable learnings in future countries: *“After Sweden, we got some understanding which things to avoid. Then we launched the app in Tallinn. And it went a lot better.”* (Head of expansion, 1st round) After learning from their mistakes they decided to test some markets before entering them fully. The head of expansions explained how they have different levels of launching a new city, to go with full effort or less. Hence, the company 2 also utilizes the so called “soft launch”.

In the first round of interviews the interviewees were asked why they internationalize within Europe, and not to far off distant markets. Director of new markets explains why they have not chosen Asia or US, why they have stayed in EU. The interviewee stated

that the decision was very strategic. The reasons are that as a beginner it is valuable to gain first more learning experiences. The interviewee explained that although it did not turn out to be a successful entry to go to Sweden, it could have been also because they did not have experience and it was their first learning. Moreover, the amount of competition in a specific market affects a lot the decision to go there. *“When we expanded to the first few countries, they were the schools for Company 2’s expansion. We learnt how this should be done; these were definitely hard lessons. So, it does not really relate only to Sweden, it relates to everything you do for the first time.”* (Director of new markets, 1st round)

The CEO stated that DPFs having competitors in the target market is a hinder in internationalization. As mentioned earlier, DPFs enjoy benefits being the major player in the market; therefore, the amount of competitors is a crucial factor when making decisions where to enter. *“This is starting to be a winner takes the most market. Depending on the city size there are likely to be many players... And most of the time when we compete, we are competing for the number one positions because being in the number one positions gives you help with extra compete because you have higher density of orders, higher efficiency, you are able to maintain a better customer experience levels and also making a lot of work. It is a very competitive industry.”* (CEO, 1st round) The head of expansions explained how the market analysis is done in order to find markets where the largest market share could be grasped: *“We did “Blue-ocean” analysis to look for markets in Europe that didn’t have competition, no big players... We just went there and we did trips to all these countries. We understood that we needed to be there, and we needed to do it quickly. So, we opened recruiting to all these countries.”* (Head of expansions, 1st round)

Copy-pasting vs localization

The head of expansions explained how each market needs localization, especially because Company 2 operates in such a local, city-level. The interviewee stated that technically their business could be copy-pasted from one market to another, that the

technicalities behind the application are the same wherever they go. However, in the interviews it was highlighted how much Company 2 adjusts operations, legal frameworks, payment methods, among other factors for each market. The head of expansion explained how the basics of the business remains same, but each market still requires some changes. When setting up a new market, the head of expansion would fly there to set up operations, focus on hiring people and meeting different people: partners and legal advisors to find out what needs to be changed. *“We do different localization, but in the end, it is still ordering food with the mobile phone from restaurants. So, it is about copy-pasting. But in the end, it is about doing every details right, and choosing markets where you are first or second, and doing it better than anyone else. In this sense it is easy to copy-paste.”* (Head of expansions, 1st round)

The head of expansions from Company 2 stated that adjustments might help win over markets. Having the marketing or customer service done in local language could be the dealbreaker for the local target audience to choose the company that has the “local feel” and thus, better user experience. The aspects that Company 2 had to change are, for example, the payment methods and legal frameworks. The Director of new markets explained the wide range of things that need modifications: *“It is quite a broad spectrum of things you need to know and adjust in order to make sure you localize perfectly: the business model, agreements (in our case with employees and partners), terms and conditions towards the customers, receipts and invoices...”* (Director of new markets, 1st round)

Similarly, The Head of expansion explained about the adjustments that were needed to enable the internationalization process. The interviewee also added how much more complicated the modifications get when internationalizing outside of EU: *“And everything starts from hiring, finding the country team, and then the legal set up, establishing the legal entity, localizing transactions, product... overall understanding of potential “red flags” of this country. Every country operates differently, especially if you go out of the EU”.* (Head of expansion, 1st round) In addition, the Head of expansion explained how

the Company 2 faced obstacles in their internationalization to Germany, even though it is a European country and relatively close geographically to their home market. The Head of expansion explained how Germany was a tough one to enter, due to a lot of localization needed in terms of language, strict regulations, payment regulations, GDPR, and other restrictions which even caused changes to the application. *“An example with Germany we had to build our support for food labelling and allergens.”* (Head of expansion, 2nd round) The findings clearly state that without localization the internationalization would be hindered.

Local physical presence

When the interviewees were asked whether DPFs require local physical presence, or can they just enter foreign markets and not have a physical office there or people from the company in that foreign market, they highlighted the importance of physical presence. This was a very interesting finding considering the digital nature of their business. The Director of new markets explained how important local people are: *“For us, it is crucial that we have a local team; we always have local people in the countries we’re operating.”* (Director of new markets, 1st round) The local market knowledge was considered crucial by the interviewees. The head of expansion explained how local people enable the internationalization with their skills and local market knowledge: *“You need to put so much time and effort! It is also important to understand the local mindset. Me going to negotiate with an Azerbaijani restaurant owner is not going to happen, we don’t speak the same language; so, you need local people.”* (Head of expansions, 1st round) The Director of new markets added that in addition to local market knowledge and language skills, the local people bring networking possibilities: *“Our local presence is driven by two things: we need local sales and for that we need local partnerships with restaurants; and the second thing is customer support. It is not directly related to the countries or cities, but it is rather linked to the languages. Europe is so diverse in terms of languages”* (Director of new markets, 1st round)

The interviewees from Company 2 explained the process of setting up a new market when internationalizing. They first would go to the new market physically to set it up. After getting the local feeling and understanding the local ways of operating they would hire local talent and teach them to run the operations. Opening new markets was done in the following manner: the head of expansions moved to each city they launched, spending some months, up to half a year there to set up operations and build teams and partnerships. *"I spent roughly a few months there, we now have a completely dedicated launching team to launch in Japan, because apparently there are such differences."* (Head of expansion, 2nd round) The Head of expansion explained how crucial strategic decisions were made keeping in mind the need to be scalable. This is one of the repeating themes in the interviews, how important scalability is for DPFs. Even after leaving the country, they must take care that the team gets the support that they need, it should not be just left on its own. *"Leading the team and looking after all these countries that we've launched that they are not left without our support."* (Head of expansion, 1st round)

The interviewees from company highlighted the important of people in digital businesses. The Head of expansion explained how if they are able to find the local people with the right skills and networks their internationalization is enabled. In addition, it appeared in the interviews that especially for start-ups, the people are crucially important as resources can be limited and new things are developed. The CEO of Company 2 stressed the importance of people in the interview. Enablers for the internationalization process, and success of the firm overall, are right people and learning. *"When building teams is that I hire people with capabilities to learn and grow, because as a starting point when you're starting something new it's a learning process. Ultimately, I think it is about the capability to learn. Capability to learn is one thing, attitude, then it's also about having this kind of certain quality of excellence, a certain quality of being motivated and wanting to work hard and wanting to become an expert in no matter what you do."* (CEO, 1st round) It was explained that DPFs differ from firms with physical products in the way that while other firms might invest in the product, DPFs put their focus and investment on the people.

4.3 Company 3

Internationalization

Company 3 is a digital marketplace where users can buy or sell second-hand clothing. The number of employees has grown to over 10. The company is now operating in Finland, Denmark and Germany. For Company 3 internationalization was the goal from the inception of the company, as scholars explain it happens in international new venture and born global firms. The CEO described the decision to internationalize in the following way: *“Why a start-up needs to go abroad? It just needs to build the company forward. If you take start-ups in China or US, they have big enough market without being global. But in any other country, you cannot be a proper scale start-up without going to other markets. Basically, it starts from the beginning; you should have an idea that is investable based on scalability.”* (CEO, Co-founder, 1st round). The interviewee explains that start-ups are expected to grow at a fast pace, and it is important to be able to attract investors. *“This is the problem that I see in many start-ups; many don’t build their firms from day one to be scaled. Especially in Finland, there are no gates to smaller markets, even for B2B. I have seen a lot of start-ups that raised a lot of money and they are still in Finland... So, you have to start from the day one choosing your idea, building the team and the product that can be scaled to other markets.”* (CEO, Co-founder, 1st round)

The CEO of Company 3 explained how the market entry decision is based on the ability to achieve profits. Moreover, the interviewee stated that the decision where to internationalize was purely dictated by monetary reasons. *“What internationalization is for digital-platform firms nowadays is that firms just go where the revenue comes from. It doesn’t matter if you have offices here or home, if the customer is paying the money from Angola, then you have an international business.”* (CEO, Co-founder, 2nd round) The CEO described the steps taken to go to a foreign market in the following way: *“It starts from the beginning, the best entrepreneurs understand that recruiting new people, building the brand and the company structure to be scalable... and when you’re able to raise money, then it is about your capability, your execution... The execution part is easy, but*

everything before is hard... like finding talent, investors and building the team.” (CEO, Co-founder, 1st round)

Moreover, the CEO from Company 3 stresses that companies should go to the markets their investors encourage them to go to. Market opportunity is the most important factor in their opinion. The CEO of Company 3 described how typically Finnish companies start their internationalization process in Sweden. However, Company 3 did not start their internationalization process in Sweden because they considered Sweden to be too small market which did not provide enough opportunity. Instead, their goal was to enter Germany. *“Sweden is a very small market of consumers. Of course, many Finnish companies go to Sweden. It is close, more secure, they have connections; but then many fail in a sense they never get out of Nordics.” (CEO, Co-founder, 1st round)*

Copy-pasting vs localization

The interviews of Company 3 raised an interesting point that each DPF's internationalization process is different depending on their industry and the product, or service they offer. In addition, the need for localization is also dependent on that. It appeared in the case interviews of Company 3 that DPFs are indeed not identical but depending on their product or service provided can encounter very different types of hindlers or enablers in their internationalization process. One issue determining the internationalization phase is how physical is the product or service provided by the firm as logistics depend on this. Company 3 is a marketplace for physical products and hence needs to take care of logistics around it, which can make internationalization challenging. The CEO explained that if their product were more digital (intangible) they might be able to copy-paste the business easily to foreign markets: *“It depends a lot on the product... So, if you are Airbnb you need multiple countries; if you're Uber you may have just one city, make it over, and then go to the next one... We figured out in our hometown or country how to make our business grow efficiently. Now we should raise money and copy-paste to another country....” (CEO, Co-founder, 1st round)*

The interviewee explained that the more scalable the business is, the easier the internationalization process. *“It is so dependent on how you have built your product. The easiest product to scale would be SuperCell game or WhatsApp-type of messaging... Going to a different continent is a heavy task. As I said, with SuperCell game it is easy; with the business that implies people sending stuff across borders it’s harder.”* (CEO, Co-founder, 1st round) Based on this logistics were an important factor in entering foreign markets. Company 3 could not simply copy-paste their application to foreign markets but their main issue was logistics around the business.

Moreover, they localized their marketing activities from market to market, having local influencers or other ways of digital marketing in the local language aimed at the target group of the foreign market. The interviewee explained that although copy-pasting can be done, it might not produce best results, especially in Europe which is very demanding in terms of localization needs. *“Yeah, it can be pretty much copy-pasted. Not necessarily it will work super well, it needs a lot of localization, but many things are pretty much copy-pasted in that sense that there are certain tasks and things that have to be done. I’d say Europe is one of the hardest markets, too many countries, currencies, languages, cultures.”* (CEO, Co-founder, 1st round)

Local physical presence

The Company 3 chose to enter Denmark to start building the international logistics operations. For them it was a matter of the right location for their internationalization purposes. Even though they operate as a highly digital firm, the interviewee explained that they have physical products that need to be shipped and therefore, internationalization required logistics planning. *“We didn’t have a very big ground to go to German market. So, we went to market close to Germany, we recruited there, we raised next-round investments to go there. Logistically Germany is close to other markets, so it makes sense to be close to other markets in Europe.”* (CEO, Co-founder, 1st round)

The company went first to Denmark and later to Germany. Having an office where talent can be found locally has lead Company 3 to have an office in Germany. Interestingly, the interviewee highlighted the importance of being physically present in the foreign country. It seems that physical presence is needed to find the right networks. The CEO stated that in big cities there are more talent, and therefore he also had relocated to the foreign market physically. The interviewee revealed the importance of being physically present in a foreign market for the purposes of building teams and succeeding in attracting the best employees.

In addition, the CEO highlighted the need physical presence because foreign laws and regulations are so complex that they would be difficult to manage from Finland. For example, foreign payment infrastructure is different in some countries: *“Another thing is that you really have to go there (to the foreign country), you have to be there, you have to bump into local people, you have to understand everything in short time. The biggest mistake is that people just sit in Finland thinking “Oh, let’s just put some Facebook add and we’ll grow”. If that would be so easy, many companies would be global... Another challenge is that internationalization brings all the matters that you do not even think of. You go to Germany and Denmark and find out that they don’t use e-bank system there”* (CEO, Co-founder, 1st round)

The CEO highlighted the importance of having local knowledge and local people. These make internationalization easier, even though the technical aspects could be just copy-pasted. *“...you hire some locals from there or from your own country. But I suggest you should find some local people.”* (CEO, Co-founder, 1st round). In addition, the interviewee explained that their partner helped their internationalization process. Having strong partnerships is crucial when entering new markets *“Our partner, DHL, is the biggest logistical company in the world”* (CEO, Co-founder, 1st round) The CEO also mentioned that localization is needed for different markets. In addition to copy-pasting the technical aspects, many changes are required. The changes required also depend on the local culture

and country, and they might be different from one country to another: *“Localization is usually related to all kind of translations, currencies...”* (CEO, Co-founder, 1st round)

5 Discussion

This section will outline the findings of research. To present the section in a logical way, there are subsections named after the identified three common themes of the intra-company analysis. Hence, analysis is built around the common themes, which were identified in the data. The three common themes are presented under the chapters: *copy-pasting vs. localization, local physical presence, and gradual internationalization vs. "borderless" internationalization*. In addition, the model development is presented in each subsection in form of a proposition developed based on the findings by the author. Because these factors can be either hinders or enablers depending on how it is presented, the hinders and enablers are presented under the same sections. For example, physical presence can be an enabler, but a lack of physical presence can be a hinder.

5.1 Copy-pasting vs. localization

The common theme of copy-pasting versus localization appeared in the interviews of all three case firms. This theme is also closely related to the theme of physical presence. Copy-pasting is an important way of internationalizing for digital-platform SMEs. It has even been noted that the success or failure of a platform provider depends on the ability to create a model that can be replicated for foreign markets. (Ojala, Evers, Rialp, 2018) The interviewees from all case firms highlighted that the ability to scale up operations makes the company successful and scale-up is the goal for DPFs. Therefore, the DPF should aspire to build a platform that in its technical sense can be copy-pasted to foreign markets.

Yet, findings suggest that at the same time, copy-pasting can be a hinder, but on the other hand enabler. In line with existing literature this thesis finds that scalability is one of the key factors to enable DPF internationalization. (Autio & Zander, 2016; Van Alstyne et al., 2016) However, it is very important to note that also copy-pasting was considered a hinder by the author, because findings suggest that copy-pasting is not enough. Instead,

there is a need to customize the service for each market. It was found that DPFs should also put effort in localizing in each foreign market. For example, it was noted by all case firms that in EU most of the countries require localization in terms of language. Top management from all case firms explained that localization is necessary because of multiple reasons: different languages and regulations, different consumer habits and needing to understand the local ways, such as how the locals consume the product or service the DPF offers. For example, Company 1 faced issues with their localization because when they entered foreign markets one of the main services they offered customers was to organize sauna parties. This concept did not exist in the foreign market, however, and therefore it did not work. This example shows why simply copy-pasting is not enough to enable the internationalization process. All interviewees highlighted that EU is a challenging area to internationalize in because of many cultural differences and different languages and regulations. Thus, localization is key in enabling the internationalization. Company 2 explained that one of the tricks they use is to hire local legal advisors in the foreign market to be able to modify their operations.

Moreover, this thesis finds that DPFs face different hindrances in different foreign markets and hence, their approach to domestic and foreign markets cannot be completely the same. This suggests that the internationalization of DPFs is not “borderless” even though it is digital, but instead each market comes with different obstacles, which creates the need to use localization. Therefore, the findings do not only suggest that localization is an enabler for the DPF internationalization, but also that localization needs to be done differently in each foreign market. Given the discussion above, the first proposition can be derived:

Proposition 1: Digital platforms can hinder internationalization of SMEs if they are not localized to specific foreign market.

5.2 Local physical presence

Physical presence has been deemed almost unnecessary for DPFs (Yonatany, 2017), but this thesis contradicts this prior research. Out of the three case firms all three highlighted the importance of physical presence in enabling their internationalization. Overall, they stated that DPFs could be copy-pasted to distant markets in terms of their technical aspect, but this would not work, because physical presence is needed to understand the local ways, recruit the right people, gain local market knowledge, build partnerships and modify the service or product in the correct ways. In the interviews, firms were asked whether they think the DPFs can operate through the digital aspect of their business in foreign markets and all interviewees stated that physical presence, at least in some form, is necessary and enables the internationalization of a DPF. This was a surprising finding, because prior research indicated that physical presence would not be needed for DPFs because they are so digital that they can simply copy-paste their operations and in this way scale up their business to distant markets fast. (Monaghan et al., 2020)

However, the findings of this thesis contradict completely this prior research and instead show that DPFs also suffer from obstacles in their internationalization, and they cannot manage to do it without physical presence. Company 1 and Company 2 operate in industries that are highly global but also local, and therefore having the local market knowledge is crucial. On the other hand, Company 3 is shipping physical products and because of the logistics it is crucial to have local partnerships and be present in target market. In addition, to all case firms building teams and networking required local presence.

Although prior research focuses on how DPFs can easily be copy-pasted to new foreign markets (Monaghan et al., 2020), this thesis finds that all case companies the top management highlights how important physical presence is in order to internationalize. Their internationalization is enabled by being present in the foreign market, because that way they can gain an understanding about the local ways; the customer preferences, the bureaucratic issues, the legal frameworks, payment methods. The findings suggest that

local market knowledge and networks can be best achieved by physical presence and building teams is easier. Even though scaling up the business is the goal for most digital businesses and DPFs scale up fast, they still need physical presence. Traditional barriers remain so networking in the foreign country is important for them. The interviewees state how it can be a mistake to think that running the business completely from the home market and placing some ads online would get the internationalization going and getting local customers and partners. Hence, the findings suggest that the virtuality trap seems to be a risk for also DPFs, that would be concentrating only on the digital aspect of their business and ignore the physical aspect. This is because physical presence is needed, at least in the beginning phase to set up operations successfully in the target market. This finding supports prior research on virtuality trap by Sinkovics, Sinkovics & Jean (2013). Below, the next proposition is presented:

Proposition 2: Digital platforms can hinder internationalization of SMEs if internationalizing firms do not establish physical presence in foreign markets.

5.3 Gradual internationalization vs. “borderless” internationalization

A surprising finding from the thesis was that even though DPFs are expected to internationalize to distant markets, they still do not imply instantaneous access to distant markets. Two out of three of the case companies still went first to Sweden, which is consistent with traditional Uppsala-model logic, which argues that firms start their gradual internationalization in countries with small geographic and psychic distance (Johanson & Vahlne, 1977). This is surprising because prior research has argued that DPFs are borderless and could copy-paste their business to foreign markets, even distant ones (Monaghan et al., 2020). For example, Yonatany (2017) argues that psychic distance and liability of foreignness are not crucially important concepts for DPFs since they can internationalize globally, and provide “one universal platform”. Therefore, there are opposing findings in the prior research (Yonatany, 2017; Brouthers et al., 2016) whether DPFs can truly operate globally effortlessly and their internationalization is borderless.

As discussed in the earlier sections of this thesis, Johanson & Vahlne's (1977) Uppsala model emphasizes the gradual and incremental internationalization process. The Uppsala model argues that companies start their internationalization from countries that they have a small psychic distance to, which means that there are not plenty of differences between the home country and foreign country. The theory explains how firms will get a better understanding on the market and thus commit more. As described in the theoretical background section, in the original Uppsala model (Jan; Johanson & Vahlne, 1977) the psychic distance was a crucial factor that determines where firms internationalize. Psychic distance is the sum of factors that hinder the information flows between markets and companies and these factors could be different language, managerial practices, culture etc. The model states that the hinder for internationalization is lack of market knowledge. The findings of this thesis confirm that the theory is still valid in the sense that the interviews show that one major hinder for DPFs the lack of market knowledge. All three case firms stressed the importance of finding local employees.

As analysed in previous section, the Findings, two out of three case companies entered Sweden as the first international market. Out of the three case firms one can be labelled as a born global, while the other two have internationalized according to the Uppsala model's gradual process. This shows how the gradual internationalization process described in the Uppsala model was still relevant even for DPFs. In addition, the psychic distance matters because as Company 1 and Company 2 explained: they entered Sweden because it seemed like the logical step, it is close, Swedish is the second official language in Finland, and since they are Nordics, their culture is thought to be similar.

Moreover, the findings show that geographical distance is still important for DPFs. The interviewees from the case companies had mostly been focusing on the European markets. When asked why they did not want to enter Asia, even though they are scalable DPFs, they explained that it would be too "foreign" and "difficult". The case companies had a common theme of internationalizing first to European markets that are near to the home market. The Company 3 has physical products they need to ship internationally to

customers and therefore the logistics were an important factor in making the decision where to place the foreign operations; they needed a location that would make sense logistically. Although DPFs are highly digital and could technically go anywhere, all stayed mostly in Europe and started in the neighboring countries. Therefore, the findings suggest that the hinder for internationalization is the DPFs not using the real potential of being digital and going to more markets, or at least markets that are more suitable, even though more “foreign”.

In addition, this thesis finds that Uppsala model it still was relevant to explain digital-platform SMEs’ internationalization. Both Uppsala model and Born global (McDougall & Oviatt, 1994) could be utilized to explain the internationalization process of the case firms. In this thesis the process of internationalization for digital-platform SMEs was analyzed. The data suggest that some parts of the internationalization process fit the Uppsala model on internationalization while other parts of the internationalization process fit the Born global theory. Whereas DPFs can enter a lot of markets and at a high speed, therefore as theorized in Born global, other DPFs might operate only in a few selected foreign markets and their internationalization happens at a slower pace. Hence, the finding of this thesis is that both Uppsala model and Born global are considered relevant to explain the internationalization process of a DPF. This support findings by Monaghan, Tippmann & Coviello (2020) who stated that there is not one theory that fully explains digital firms’ internationalization process.

The results of this study indicate that DPFs’ internationalization can be understood through the lens of both the theory of Born global and Uppsala model. Although the DPFs are seen as dynamic, digital, and modern and known for their scalability and global reach, they also face hinders when internationalizing and often require physical presence in their target country. When crossing national borders, the employees of DPFs require intense cultural knowledge, skills to build partnerships in the new country and much effort to adapt to meet the local requirements and demands. Moreover, even though DPFs are recognized for their fast internationalization the process of internationalization

seems to be incremental and often the first foreign markets are geographically close to the home country. The findings of this study show that the internationalization of digital-platform SMEs portrays characteristics from both Uppsala model and born global theory. However, the findings reveal that choosing to enter Sweden as the first foreign market has hindered the internationalization process of interviewed digital platforms.

In addition, the findings of this thesis support the findings of Dominguez & Mayerhofer (2017), who studied internationalizing SMEs. In their sample all the SMEs began their internationalization according to the Uppsala model – close to the local market and with lighter modes such as exporting. This highlights the importance of psychic distance (Johanson & Vahlne, 1977), because firms progress from neighbouring countries to more distant ones. By doing this firms usually gain several crucial learnings and networks in the first target countries. As the experiential knowledge and internationalization capabilities are growing after operating in several foreign markets, the DPFs seemed to start going to more distant markets as well. Given the discussion above, the third proposition can be formulated:

Proposition 3: Despite their scalability, DPFs can still internationalize gradually starting from geographically close markets with low psychic distance to far markets with high psychic distance. Both Uppsala model and Born global could be utilized to explain the internationalization process of the case firms.

6 Conclusions

In this section the author will discuss the theoretical and managerial implications. Furthermore, recommendations for future research will be given.

The aim of the thesis was to examine how digital platforms enable and/or hinder internationalization of SMEs operating through them. The findings suggested that although DPFs are technically able to copy-paste their business to foreign, even distant markets, their internationalization is surprisingly hindered from lack of localization and lack of local physical presence. Thus, simply copy-pasting their business to foreign markets would hinder the DPFs' internationalization. In addition, the thesis found that the digital platform as such does not enable internationalization to distant markets since inception of the firm. Although DPFs are considered as born globals, the thesis found that only one out of the three case firms can be categorized as a born global. Two out of three studied case firms followed a more gradual internationalization process which started from countries that are geographically close and have a small psychic distance. Hence, digital platforms do not always enable the firms to internationalize to distant markets but instead they also have to start from close markets according to the findings.

The topic of this thesis is highly relevant. The new emerging type of companies, DPFs, have taken over industries in countries all over the world and disrupted business. However, IB research on DPFs is still lacking. Moreover, the existing research on DPFs highlights the positive sides of operating through a digital platform and largely ignores any downfalls and issues DPFs experience. This thesis aimed to examine how DPFs' internationalization is enabler and/or hindered by operating through a digital platform, thus, shedding light to also the negative side of DPF internationalization. Previous research was focused on the positive sides; how digital platforms enable the firms' internationalization and how DPFs are so scalable and can be easily copy-pasted to foreign markets. Yet, this thesis found that when DPFs internationalize, they also face issues that come despite the digital aspect of their business.

The aim was to study the hinders and enablers of DPFs' internationalization. **The propositions developed based on the main findings of the thesis can be summarized as follows:**

Proposition 1: Digital platforms can hinder internationalization of SMEs if they are not localized to specific foreign market.

Proposition 2: Digital platforms can hinder internationalization of SMEs if internationalizing firms do not establish physical presence in foreign markets.

Proposition 3: Despite their scalability, DPFs can still internationalize gradually starting from geographically close markets with low psychic distance to far markets with high psychic distance. Both Uppsala model and Born global could be utilized to explain the internationalization process of the case firms.

The thesis utilized multiple case studies. By interviewing the three DPFs the author was able to gain in-depth knowledge on their internationalization. The case companies had common themes in the internationalization process; copy-pasting, localization, and physical presence. Based on the main themes the author developed statements that summarize the theoretical assumptions made based on the key findings. Therefore, the author developed theory based on the identified research gap. This thesis advances the internationalization theory by extending it to digitalized firms. The concept of digitalization and internationalization are brought together. Furthermore, this thesis deepens the understanding on DPFs' internationalization process and contributes to knowledge about the hinders and enablers in the process.

Even though the IB research on how digitalization, and specifically how operating through a digital platform, impacts the internationalization of the firm is scarce, the prior research suggests that digitalization enables firms in their internationalization. Being digital affects the DPFs' internationalization in major ways. The internationalization process

is enabled through their digital aspect of their business; they can copy-paste the business model digitally. (Monaghan et al., 2020) Technically, they could even start operating in other countries technically even running the business from their home market. In addition, they are enabled by their digital aspect of the business in the way that they can gain customers through digital ways; different ways of digital marketing work well for them. Although technically DPFs can be copy-pasted to foreign countries and they can achieve users with digital marketing, this thesis finds that there is still a strong need for physical presence.

Surprisingly, although DPFs are digital, this thesis finds that DPF internationalization is hindered by numerous factors. Their internationalization process is hindered by lack of local presence, lack of cultural knowledge, cultural differences in the home and target market, the virtuality trap and lack of international experience. The thesis contributes to theory with the finding that just like any other non-digital company, also DPFs struggle to find the right people, build teams, and build partnerships in a foreign market. Moreover, the findings suggest that the DPFs are strongly affected in the foreign markets by the different regulations, payment methods, languages, and cultural habits. Hence, the thesis has highlighted the dark side of DPF internationalization: although DPFs are digital and known for their ability to effortlessly scale up to new markets, their internationalization process is also hindered by several factors and interestingly, despite their digital business, they also seem to require local presence in the target market.

In addition, this thesis builds on major internationalization theories, namely the Uppsala Model (Johanson & Vahlne, 1977), INV (McDougall & Oviatt, 1994) and Born global (Rennie 1993). An interesting finding is that even though DPFs have been recognized as superfast at internationalizing, and it is believed their business can copy-pasted from one country to another, this thesis finds that two firms in my sample followed Uppsala model. Going to Sweden. Of the sample the two firms followed more typical Uppsala type of model with internationalization which is rather contradicting to what we know about DPFs. Two out of three case companies started their internationalization in Sweden, a

neighbouring country of Finland, which corresponds to the theory of Uppsala Model in which the firms internationalize to countries near and similar to the home country. In addition, although DPFs are often thought to be INV/Born global type of firms, only one firm of the three case firms was born global. Thus, the findings indicate that the traditional model of internationalization, Uppsala Model, is still relevant and applicable to explain the internationalization of modern DPFs. Moreover, internationalization of all case companies was not that fast paced as described in INV or Born global theories but progressed in smaller steps instead.

Further research is needed to understand the effects of operating through a digital platform on the firm's internationalization process. The author encourages research that covers DPFs from several countries, instead of only Finland. Future research could cover a larger amount of data to make sure results are generalizable. In addition, more research on DPFs based on longitudinal data is needed. As mentioned earlier, De Reuver, Sørensen & Basole (2018) recommended to take into account methodological approach of researching DPFs in the long-term because the DPFs are dynamic and complex by their nature and change fast. Hence, the data for DPFs are more valid when it is gathered in the long term. Moreover, in general DPFs require more focus on research in field of IB; future research could concentrate on the internationalization speed of DPFs and comparative study of DPF internationalization versus MNC internationalization could help understand the DPF internationalization more in-depth.

The findings suggest that managers should also be aware of the hinders of DPF internationalization, even though it is largely believed that DPFs are very scalable and could be copy-pasted to new markets. Managers should beware of underestimating the importance of local physical presence in the foreign market. Although DPFs are highly scalable and technically can be copy-pasted from one country to another, the findings show that internationalization is enabled with physical presence and localization. Moreover, DPFs seem to rely a lot on the international experience of their top management. As internationalization for a DPF is a learning experience, the market entry decision is

important and has long-lasting effects. The foreign market should be chosen carefully and according to market research. The findings showed that two out of three case firms followed Uppsala model in their internationalization, starting from countries with low geographical and psychic distance. Moreover, competitors can be an extremely tough obstacle for a DPF as for digital platforms the market leader enjoys the large customer base and business partners, which makes it difficult for companies entering later to break into the market. Hence, “soft launches” and entering markets with less risk at first to test them seem to be a functioning strategy for DPFs. Even though DPFs are very scalable still a lot of customization is needed to reach foreign markets.

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Appendices

Appendix 1. Information on the interview data

	1st round	Lenght of the interview	2nd round	Lenght of the interview
Company 1				
CEO, Co-founder	30.01.2020	9 pages	9.12.2020	13 pages
Co-founder	20.01.2020	10 pages		
Co-founder	15.01.2020	13 pages		
Head of expansion			7.1.2021	16 pages
Company 2				
CEO	07.11.2019	7 pages		
Head of expansion	20.02.2020	7 pages	18.12.2020	11 pages
Director of new markets	14.02.2020	5 pages	3.2.2021	9 pages
Company 3				
CEO, Co-founder	13.02.2020	7 pages	27.01.2021	9 pages
In total	In total 1st round interviews: 7	In total: 58 pages	In total 2nd round interviews: 5	In total: 58 pages